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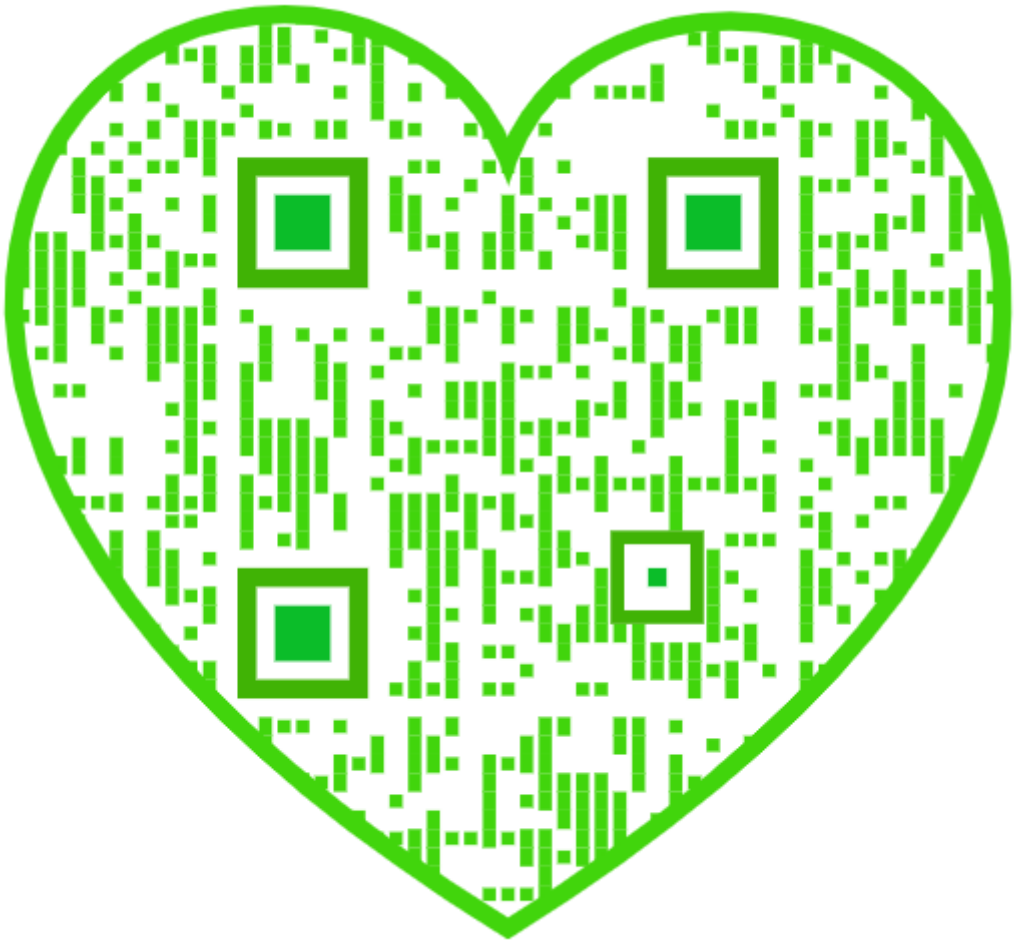

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OUTLINES OF ECONOMICS

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OUTLINES OF ECONOMICS

DEVELOPED IN A SERIES OF PROBLEMS

BY MEMBERS
OF THE DEPARTMENT OF POLITICAL ECONOMY
OF THE UNIVERSITY OF CHICAGO

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PREFACE TO THE SECOND EDITION

This book, which has been revised, expanded, and to a considerable extent rewritten since its first publication in tentative form a year ago, is the outgrowth of a three years' experiment in elementary economic instruction. The problem with which this experiment has had to do is sufficiently familiar to teachers of introductory economics: the problem of imparting the essentials of economic theory to college students who, at the same time that they condemn such generalizations as remote and unpractical, betray in many ways how limited is their own understanding of practical, commonplace, economic facts. Fortunately, it is possible not only to link economic theory with descriptive material, but in a measure to build the theory up out of the familiar events of economic life. This procedure the authors have attempted to embody in a series of problems designed to guide the student in his reading and to give definiteness and direction to classroom discussion.

The method of the book has been called inductive; but it is inductive in only a very limited sense. Questions and answers could hardly enable beginners in the subject to arrive independently at the conclusions which economic scholars have accepted. The instructor must still hold the discussion to a true course. Yet questions can and, as experience shows, do serve to arouse interest, to point the way in which a sound conclusion lies, and to give a basis for discriminating and independent judgment respecting the adequacy of the conclusion which, under guidance, is reached. A student is well on the road to understand the fundamentals of economics so soon as he learns to reflect intelligently upon what is happening every day in the world of affairs about him.

It is not intended that the *Outlines* shall take the place of a textbook. Rather they have been designed to parallel some text, with its systematic presentation of economic theory, and they may well be further supplemented by readings of a descriptive character. A "case-book" of illustrative material is already in preparation for use with the *Outlines*.

The authors have been aided both in the writing of the book and in the experimenting which led to it, by co-operation, criticism and suggestions from many teachers of economics in their own University and in other institutions. In particular they wish gratefully to acknowledge the assistance rendered by Professor J. Laurence Laughlin, Professor A. S. Johnson, and Professor R. F. Hoxie, of the University of Chicago; Professor F. M. Taylor, of the University of Michigan; Professor A. B. Wolfe, of Oberlin College; and Professor T. N. Carver, of Harvard University.

LEON C. MARSHALL
CHESTER W. WRIGHT
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September, 1911

NOTE TO THE THIRD EDITION

In preparation for this new edition the section on The Marginal Utility Explanation of Value has been moved to a position more in conformity with the order of presentation followed in most of the economic textbooks. Minor changes have been made here and there throughout the book; but there has been no attempt at thoroughgoing revision.

May, 1912

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A. INTRODUCTORY

Economics is the scientific study of the activities of men in the process of getting a living. As such, it is one of the social sciences; for the methods by which men attempt to make a living depend on the way in which men live together in society. All modern business involves a high degree of co-operation, and is to that extent social in character. Certain industries and trades are possible only under special social conditions: elevated railways and subways do not pay except in large cities; shopkeepers can sell only those goods which conform to the fashion and usage of the day; saloons and lotteries are subject to the public sense of right and wrong, expressed in law. To differentiate economics sharply from the other social sciences would in fact be impossible. Each of these social sciences, investigating its own special problems, is, in its attempt to explain them, driven to study the forces now operating in society as a whole. All the social sciences deal with the *process*, the evolution, of society; recognize its momentary aspect as but one phase of a continuous change; and seek in the past history of social institutions an indication of the forms they may be expected to assume in the future. In so far as separate social sciences are to be distinguished, the distinction is not in fixed, exclusive boundaries, but rather in a difference of emphasis and viewpoint. Working within the common field of organized social relations, each science treats primarily and centrally a problem characteristically its own.

The economist, in studying the process of getting a living, is primarily interested in the manner in which men endeavor to satisfy their wants—typically, though not exclusively, the material wants, of food, clothing, and other necessary or desirable commodities that we make, and sell, and buy, and use. Consequently, in what follows we shall study (1) the nature of wants and the application of goods to their satisfaction (generally called *consumption*); (2) the bringing into existence of the means of satisfying wants (generally called *production*); (3) the valuation set upon goods in the process of exchanging them (generally called *exchange*); and (4) the apportionment or sharing of these goods among the members of society (generally called *distribution*). Of course some wants are satisfied without effort on our part, e.g., our want for air. As such cases present no problem, the economist does not concern himself with them. In most cases, however, nature does not spontaneously satisfy our wants, and this one commonplace fact goes far to explain all human social activity.

Questions

1. What do you consider the ten most important questions of the day? Which of these are essentially economic questions? How many directly or indirectly involve economic matters?

2. Name some of the laws passed by our legislatures that have economic consequences. Can you mention any important legislation that is without economic effect?

3. Try to estimate how large a portion of our life is given over to the attempt to satisfy economic wants.

4. "To attain better satisfaction of our wants we might do several things: (*a*) diminish the number of our wants; (*b*) change the character of our wants, e.g., develop altruism; (*c*) provide for larger production and better distribution of wealth." Are any of these being done today? What part of the problem falls to the economist?

5. What social problem primarily interests the student of political science? of history? of ethics? of social psychology? How is each of these problems related to the central problem of economics?

6. If men were never in danger of hunger or other pressing want would they work, or steal, or go to war? Are work, and crime, and war economic phenomena?

7. Would far-reaching economic changes, such as the change from good times to hard times, be likely to have political consequences? Would such changes be likely to affect the average man's attitude toward life?

8. Do you believe that you can form a satisfactory judgment upon a given historical period, e.g., the colonial period in America, without having a knowledge of the economic conditions of the time?

B. ECONOMIC WANTS, MOTIVES, AND CHOICES

I. The Characteristics of Wants

II. Means of Satisfying Wants

This phase of economics is commonly known as The Consumption of Wealth, or, more briefly, Consumption.

I. The Characteristics of Wants

Since political economy is concerned with the effort to satisfy wants, some idea must be gained of the characteristics of wants, motives, and choices. This section of the work is, of course, largely a discussion of social psychology. Our main concern is with the consequences of this psychology in so far as these consequences are economic.

QUESTIONS

1. Try to draw up a classified list of our wants. Are they confined to things which enter into commerce? Are they confined to material things?

2. In the case of most of our wants it is said that a "law of diminishing utility" or "law of satiety" applies.

a) State this law, giving particular attention to a formulation of the conditions under which it is true.

b) What practical results of the working of this law appear in the industrial world?

3. It is said that "the sum total of human wants cannot be sated."

a) What evidence can you advance concerning the validity of this statement?

b) What practical results of the working of this law appear in the industrial world?

4. It is said that "wants are determined largely by social standards."

a) What evidence can you advance concerning the validity of this statement?

b) What practical results of the working of this law appear in the industrial world?

5. Are our wants wholly under the control of our reason? Do we always desire those things which are beneficial? Worthy? Can you give cases where wants seem to flow from the action of habit? custom? social inheritance? instinct?

6. Do people actually apportion their expenditures for the articles they buy in accordance with their abstract opinions of what would be judicious expenditure?

7. Since you must make choices, you probably seek first to gratify your most pressing desire, *x*. Can you tell why *x* is at the moment the most pressing of your desires? Would it always be?

8. Suppose you had $100 to spend. Would you spend all of it at once? What would you buy? Would you buy the same things at all times and under all circumstances?

9. If you had $200 to spend, would you include among your purchases all the things you would have bought for $100?

10. A spends annually $600. B spends annually $60,000. Is it likely that B spends just 100 times as much for clothing as A does? Following out this suggestion, classify the expenditures of the ordinary family under half a dozen general heads and indicate what proportion of the total expenditure might fall under each of these heads in the cases of A and of B.

11. Make a list of reasons why men engage in industry and trade. Are they ever actuated by altruism, love of power, or patriotic desire to contribute to the welfare of their own community? Should the economist deal with such motives as these?

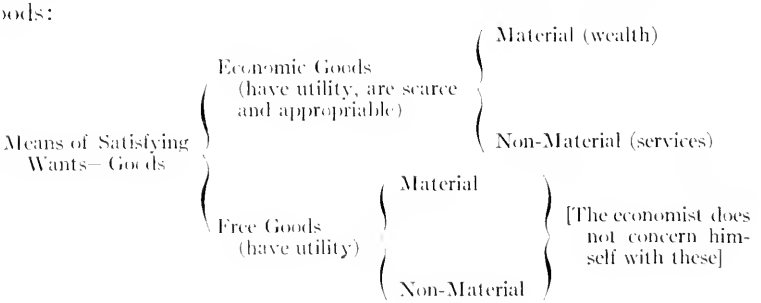
12. Should the economist deal with "economic wants, motives, and choices," or with all wants, motives, and choices which have economic significance? Is economics the only science which is concerned with human wants?

13. Do you think of any form of economic activity which is not consciously directed toward the satisfaction of wants?

II. Means of Satisfying Wants

Means of satisfying wants are called *goods*. Goods, which may be material or non-material, are characterized by the quality of *utility*—the capacity to satisfy wants.

The following diagram suggests a descriptive classification of goods:



Questions

1. Does every good possess utility? Is everything which possesses utility a good?

2. Have the following utility: whiskey, a gambler's pack of cards, clothes of an obsolete fashion, opium, grand opera, air?

3. Which has the greater utility, a diamond or a barrel of flour? the rare first edition of an old book or a modern copy, better printed and better bound? Why?

4. Are the following appropriable: (*a*) a loaf of bread; (*b*) a coal mine; (*c*) sunshine; (*d*) the Mississippi river; (*e*) a public park; (*f*) a band-concert? What is meant by "appropriable"?

5. Give examples of non-material economic goods, of non-material free goods, and of material free goods.

6. Should the economist be as much concerned with non-material as with material economic goods? Can we say that one class is more important than the other?

7. Make a list of things which are clearly wealth.

8. Make a list of things which are clearly not wealth.

9. Make a list of things concerning which you are in doubt whether they are wealth.

10. Define wealth.

11. Are the following wealth: an ocean steamship; a pleasure yacht; a ship on the bottom of the ocean; gold in the mine; gold, to a shipwrecked sailor on a desert island; a wooden leg; health; eyesight; a waterfall; a head full of useful knowledge; water?

12. "A thing may be wealth though it is not useful, e.g., an Indian arrowhead." Comment.

13. Is an encyclopedia wealth? among Indians?

14. Could a thing that was wealth at one time cease to be wealth at some other time? Could the reverse be true? Why?

15. If a coat should go out of style would it still be wealth?

16. What distinguishes wealth from services?

17. Should we consider services which have a tangible result more important than those which do not? Give several illustrations of each kind.

18. From the point of view of the economist could you accept as a definition of wealth—

a) Means of satisfying wants?

b) Things which make for welfare?

c) Material means of satisfying wants?

d) Material things upon which labor has been expended?

19. Are the following wealth: a court-house; a warship; a city-hall; a public library?

20. How do you distinguish between social wealth and private wealth? Does social wealth include more than private wealth?

21. When a United States gold certificate is destroyed is wealth destroyed?

22. Is a railroad bond wealth? Is a patented invention? a fire-insurance policy?

23. Suppose a new source of mechanical power should become available at one-fourth the cost of steam-power. What would be the effect on wealth in general? Would any individuals be made less wealthy by the new discovery?

24. If wealth increases will there be greater well-being? What is the relation of wealth to well-being?

25. "To be wealth a thing must be scarce." Is that equivalent to saying that the less we have of things the better off we are? What do you mean by "scarce"?

26. Is a man's wealth measured by the number, or bulk, or weight of his possessions, or by their money value? Is a scarce article likely to command a higher price than one that is common? Does this imply that wealth is increased by scarcity of goods?

27. Should you accept as true the statement that the scarcity of certain desirable articles, such as jewels, may enhance the comparative wealth of an individual, but that general welfare is promoted by abundance of the commodities which people desire? Why?

C. PRELIMINARY SURVEY OF THE ECONOMIC SYSTEM

I. The Evolution of Industrial Society

II. Certain Characteristics of the Present Economic System

A view of a machine as a whole aids in understanding the functions of the parts. A brief general survey of the modern industrial system, showing how it originated, how it developed, and what are some of its salient features at the present time, is likely to be a useful preliminary to the later detailed study of its operations.

I. The Evolution of Industrial Society

Continuous change goes on in industrial society. The economic organization which prevails in the United States at the present time is in many essentials very different from that which prevailed in the early colonial days or at the outbreak of the Revolution, or even fifty years ago. Fifty years from now it may be very different from what it is today. The changes are the result of many and complex factors such as natural forces and conditions, human effort, social institutions, etc. Always the economic motive is prominent—the desire to devise better methods of enabling us to satisfy our economic wants.

As industry has developed from the earlier forms to the present form there has constantly been a tendency toward specialization. Occupations have become differentiated, division of labor has increased, productive processes have become more efficient as well as more complex, and the time which elapses between the beginning of the production of a good and the consumption of that good has been greatly lengthened. Without attempting to press too far into the origins of society we may distinguish four main stages of development, from the point of view of industrial society: (1) The independent or domestic economy; (2) the town or local economy; (3) the national economy; (4) the international or world economy.

The first stage is illustrated by the Indian, the patriarchal family, the primitive tribe, or the western pioneer. The wants of all in these cases were supplied by the products of their own efforts without any very roundabout process. The next stage appears where an exchange of products becomes customary. Division of labor takes place. The process of production occupies a longer time and becomes more efficient, thus making it possible for a given area to support a

larger population. Then, as means of transportation improve, one section of the country begins to specialize in one thing and another section in something else; they are no longer independent self-sufficing units; the process of production becomes more complicated; and we have the growth of a national economy. Sometimes this process of specialization may be carried so far that a whole nation comes to specialize in manufacturing, and becomes very largely dependent upon other countries for its raw material and food supplies, as in the case of Great Britain today. Such a situation may well be called an international economy. The present tendency toward this stage is manifested in the increasing dependence of modern nations upon foreign supplies and foreign markets.

These stages of economic development have appeared in different countries at different times; in some places one stage continued dominant for many centuries, as in parts of Europe; in others a stage may have lasted but a few decades, as in the United States. There are many intermediate stages, and one seldom finds a situation where the household, the locality, or the nation is absolutely self-sufficing.

Questions

1. Are any industries today in the handicraft stage?
2. Why were there formerly many more "jacks of all trades" than there are now?
3. Mention some concrete cases where (*a*) the development of transportation and communication, (*b*) geographical conditions, (*c*) social institutions, (*d*) racial characteristics, have influenced the evolution of industrial society.
4. In the evolution of industrial society trace some of the manifestations of increase in (*a*) specialization and division of labor; (*b*) social interdependence; (*c*) complexity of form; (*d*) productive efficiency.
5. Was there formerly the gulf between the laboring class and the employing class that exists today?
6. Formerly a cobbler owned his own shop and tools, managed the shop, employed apprentices, and did some of his work himself. How does the modern large shoe factory differ from that?
7. Do you think the modern organization of industry requires greater managerial skill and ability than formerly, and if so, why?
8. Do the captains of industry of today usually own the concerns they manage? What was the situation in earlier times?
9. Suppose all the railroads in the country were removed. How would that affect the efficiency of industry?
10. Trace in detail and from the very first the processes which

have aided in supplying you with your cup of coffee. How many people do you suppose helped in those processes? Do you think it desirable to be dependent on so many people in the satisfying of your wants?

11. Estimate the time that has elapsed since the first steps were taken which have resulted in the issue of this morning's daily newspaper. Why is it worth while to spread the work over so long a period?

II. Certain Characteristics of the Present Economic System

1. *Private Property*
2. *Freedom of Competition*
3. *Co-operation through Exchange of Goods*
4. *The Money Economy*

The present stage of economic evolution, as evidenced in the United States, is marked by specialized production, in connection with a highly developed system of the exchange of goods. This development of exchange, in turn, is facilitated by the convention of money-payments instead of the more primitive and inconvenient method of barter. Centralization and enlargement of the scale of industry have accompanied the widening of markets. Capital, invested in machinery and other equipment, has so accumulated that the owners of capital exercise a dominant influence in industrial management. Underlying these modern economic manifestations are the long-established institution of private property and the more recent assumption that every man is, in theory at least, individually free to work for the furtherance of his own interests, as he conceives his interests, according to principles of comparatively unrestricted competition.

These several features of the current economic process will be subsequently encountered in the discussion of various specific problems. Private property, competition, exchange-co-operation, and the money economy are selected for more particular notice at this point. They are to be regarded as devices for increasing our power over the external conditions of existence—i.e., satisfying our wants—which have proved so successful that they have been generally adopted. Although these devices are, properly speaking, in themselves economic phenomena, we more often think of them as conditions underlying our economic activities, and economic science in a measure takes them for granted as fundamental characteristics of our civilization.

1. Private Property

Questions

1. If a man steals a watch does it become his property? What is the difference between possession and property?

2. Might there be private property in clothes, weapons, and other articles of personal use apart from a recognition of similar property-rights in land, machinery, factory buildings, etc.?

3. If there were no assurance of undisturbed and permanent possession of land would men (*a*) hunt? (*b*) raise cattle? (*c*) plant crops? (*d*) build houses? (*e*) construct railroads?

4. What relation can you point out between private property and (*a*) social peace and order? (*b*) foresight and industriousness? (*c*) invention? (*d*) capitalistic production? (*e*) the private family? (*f*) provision for education of children and their start in life?

5. Should property-rights last beyond one lifetime?

6. Compare the right of inheritance and the power of bequest as motives to industrial efficiency.

7. Make a list of the disadvantages of private property.

8. Is private property a natural, inalienable, inherent right, or a matter of social agreement, based on expediency?

9. Should the right to private property be restricted or abolished if in the judgment of society its disadvantages outweigh its advantages? Have property-rights been limited in the past?

2. Freedom of Competition

Under this head are treated together freedom of initiative, freedom of contract, and the principle of self-interest.

Questions

1. Is everyone free to run a saloon? to practice law? to sell adulterated food? to conduct a lottery? to sell cigarettes to minors? to sell himself into slavery? to fix cab-fares?

2. Make a list of practical obstacles, as distinguished from legal restrictions, which limit industrial freedom.

3. Our present system has sometimes been termed an industrial anarchy. What does this mean? Is the characterization just?

4. Should there be any presumption either for or against "state interference," or should each case be decided upon its merits? What do you mean by "merits"?

5. How does it happen that we do not have the state look after

the supplying of our wants instead of relying on individual initiative? Do you know of any case where the state does carry this burden?

6. Does the government violate the principle of free initiative by (*a*) subsidizing steamship lines? (*b*) paying bounties for killing woodchucks? Do these policies imply that individual initiative is an inadequate motive to economic activity?

7. Can you mention cases where the state takes part *directly* in industry today?

8. Are there any ways in which the state aids *indirectly* in industry today?

9. In so far as the state participates in industry, is its participation intended (*a*) to exclude private industry? (*b*) to compete with private industry? (*c*) to make up for the lack of private industry?

10. To what extent is competitive business dominated by self-interest?

11. Does the ordinary man know what is for his best interest? Would it be safe to assume that men always pass an intelligent judgment upon the advantages and disadvantages of any course of action? How does your answer bear upon the validity of the assumption that free competition is desirable?

3. Co-operation through Exchange of Goods

Everyone appreciates that the modern industrial society is an "exchange-society." Practically no one produces all, or even many, of the things he consumes. It is not so generally appreciated as it should be that this is in reality a process of co-operation, none the less real because carried on unconsciously. No formal machinery has been set up by conscious action, but, as Professor Taylor says, our co-operation is both *effected* and *regulated* by exchange.

Questions

1. Why does not everyone make the same commodity?

2. How does it happen that the things produced are generally the things we want?

3. Discuss the situation of a coal miner under a system according to which his wages could consist of only the goods he produced. Could coal be used as fuel to any general extent under such conditions?

4. Show how our co-operation is effected through exchange.

5. Show how our co-operation is regulated by exchange.

6. "Exchange does not really help. Indeed it hinders. Time and energy are spent in merely passing goods on." Do you agree?

7. Adam Smith, in a famous passage in *The Wealth of Nations*,

observes that every individual who, in pursuit of his own gain, directs his industry in such a way that the product may have the greatest possible value, is "led by an invisible hand" to promote unintentionally the public welfare. Should you accept as true the implication that exchange-co-operation completely reconciles the interests of individuals and the community? Are individuals ever rewarded for actions which yield a present benefit to some, but are in the long run detrimental to society?

8. Are the goods which sell to the best advantage necessarily or usually the most serviceable?

9. Does the manufacturer know the precise tastes and needs of the persons who are to use his product? Does he know what sorts of goods will be most readily salable through wholesalers? In deciding what to make does he primarily consider the nature of human wants or immediate market conditions?

10. How far true is the statement that exchange leads to increase of individual wealth rather than to enhancement of the general welfare? Would general welfare be furthered if exchange-co-operation were abandoned?

11. Attempt to summarize the social benefits of exchange-co-operation.

12. Could organized exchange exist if there were no recognition of private property?

4. The Money Economy

Questions

1. To what extent would contemporary industrial methods be possible if the device of money had never been adopted as a means of facilitating exchange?

2. How could you, without reckoning in terms of dollars and cents or other monetary units, answer such a question as (*a*) by how much did exports exceed imports in a certain year? (*b*) how large a business does X transact? (*c*) does your farm pay?

3. If the money value of the wheat crop should some year exceed the money value of the previous crop by 100 per cent should you say the crop was twice as great as before?

4. Is money an adequate measure of (*a*) effort? (*b*) utility? (*c*) welfare?

The intricacies of exchange and of the money economy can be only very superficially touched upon at this stage of the study. But it is important from the start to recognize two principles, neglect of

which introduces a certain element of confusion into subsequent analysis unless great pains be taken to make allowance for them.

(1) In an economic system based on exchange the immediate advantage of a bargain is more likely to occupy men's minds and to determine their actions than is concern for the ultimate good which may result to society. Consequently, in dealing with many problems, individual advantage and social advantage must be considered separately. The corresponding distinction, between individual or acquisitive gain and social gain, is of much importance and no little difficulty. The interests of the individual and of society are not necessarily opposed, but they often may be.

(2) Economic quantities are expressed sometimes in terms of number, bulk, etc., and at other times in terms of money value. Thus a job may be said to involve three days' labor, or six dollars' expenditure for wages; a crop may be estimated as 1,500 bushels, or $800; a spinning mill may be described as of so many spindles, or in terms of the money invested. Of these two forms of expression, the pecuniary, or money-value form, is probably the more usual in ordinary language; but on the other hand, in the investigation of problems it may well be more important to deal with days or hours of labor, or with the visible form of the result. Neither terminology can be adequately translated into the other. Logically, therefore, economics as a systematic science should adhere to one or the other consistently. In this book logical consistency is consciously sacrificed in the attempt to present each of the several economic questions in the form which seems most appropriate to the purpose of an elementary course. The student is cautioned to guard himself as far as possible against confusion in consequence of this change of viewpoint.

D. THE PRODUCTIVE PROCESS

I. The Meaning of Production

II. Natural Agents and the Productive Process

III. Labor and the Productive Process

IV. Capital and the Productive Process

V. Organization and the Productive Process

I. The Meaning of Production

Production is the bringing into existence of economic goods in order to satisfy the wants which nature does not freely furnish the means to satisfy. As has been seen these goods may be material or non-material, and it is not possible to say that one form is more important than the other.

The productive process does not exist as a thing in itself, separate from the exchange and distributive processes. But at this point in our study emphasis will primarily be placed on the productive aspect of industrial society. In dealing with complex and interacting phenomena it is necessary to resort to such abstractions chiefly as a method of exposition.

Questions

1. Give examples of the creation of form-utilities; of place-utilities; of time-utilities; of possession-utilities.

2. Is a railroad an instrument of production, of exchange, or of distribution, in the economic sense?

3. Are the following enterprises productive: cold storage; the express business; the mail service; the telephone service; a retail candy business; speculative buying of grain to be held for a rise in price?

4. Are book-agents producers or mere parasites on the industry of others?

5. Do you agree with the doctrine that what one man gains at trade other men necessarily lose?

6. It was once maintained that agriculture and mining are the only forms of industry truly productive, inasmuch as manufacture merely elaborates the commodities which agriculture and mining have produced. Criticize this argument.

7. Do social conditions guide, restrict, or otherwise influence production? If so, give concrete examples.

8. Is a poor crop a sign of a poor farmer? of a poor farm? of a poor season?

9. Can you establish which is the more important factor in production: human ability or the responsiveness of our surroundings?

10. Can one establish that nature aids more in one industry than in another?

11. Describe carefully what "production" involves in the case of (*a*) coal; (*b*) lumber; (*c*) hay; (*d*) champagne; (*e*) watches; (*f*) books.

12. Production has been classified descriptively as follows:

A. Material Production
   a) Mere occupancy
   b) Extractive industries
   c) Manufacturing
   d) Transportation

B. Non-Material Production
   a) Ideas with economic consequences
   b) Work of credit institutions
   c) Services, e.g., work of domestics, teachers, etc.

Give illustrations. Draw up a classification of your own.

In the following sections (II–V) we shall be concerned with an analysis of the various parts or agents of the productive process. Much of the matter to be presented is descriptive rather than strictly logical, and much of it has to do with the technique of industry. In dealing with these agents of the productive process it is particularly important to observe the precautions suggested on p. 13, and to discriminate (*a*) between the individual and the social viewpoint, and (*b*) between the pecuniary terminology and the terminology which reckons with labor-time, and with number or bulk of materials and of output.

II. Natural Agents and the Productive Process

1. *The Function of Natural Agents in the Productive Process*
2. *The Increase of Production as Determined by Land*
3. *The Conservation of Natural Resources*

The term "natural agents," in this connection, includes all factors and conditions affecting production which are non-human and essentially independent of human effort and ingenuity.

1. The Function of Natural Agents in the Productive Process

Questions

1. Give examples of industries peculiarly dependent on gravitation, rain, wind, sunshine, tide, moisture, temperature, qualities of soil.

2. How have natural conditions affected the industry of Michigan, Greenland, Egypt, Central America?

3. What are the chief natural resources of the United States? In respect of what resources is the United States pre-eminent?

4. In his practical discussion of "natural agents" the economist largely confines his attention to what is generally known as land. Can you justify this?

5. Which of the various physical properties of land are of special importance to (*a*) the lumberman? (*b*) the miner? (*c*) the manufacturer? (*d*) the shopkeeper? (*e*) the traveling salesman? (*f*) the civil engineer? (*g*) the fisherman?

6. Is land necessary to all production? How about the services of the domestic servant?

7. Generalizing your answers to the two preceding questions, in what fundamental ways does land aid in production?

2. The Increase of Production as Determined by Land

a) *Physical Limitation of Land*
b) *Exhaustion of the Powers of Land*
c) *The Law of Return.* (This law is discussed here as applying only to land. A wider application of the principle will be made later under the topic of "Organization.")

Questions

1. Is there any limit to the amount of land?

2. What is made land? Can land be made by draining? irrigating? fertilizing? addition of sand or clay?

3. What is meant by the expression "exhausted land"? What properties of land are subjected to exhaustion?

4. What is rotation of crops? Why is it resorted to?

5. Why should a farmer ever break up new land?

6. Why does any farmer cultivate more than one acre at any one time?

7. Why are different qualities of land under cultivation?

8. State the principle of diminishing returns from land.

9. What is intensive cultivation? What is extensive cultivation? Give examples.

10. Explain the term *margin of cultivation*, distinguishing between the extensive margin of cultivation and the intensive margin of cultivation.

11. Work out a demonstration of the fact that the profitable limit to intensive cultivation is reached at the point where the return to the last unit of labor and the last unit of capital corresponds to the return to labor and capital on land at the extensive margin of cultivation.

12. Is the best land always utilized first? Did the Plymouth colonists cultivate the best soils in America? Did they presumably cultivate at the outset the most fertile land in Plymouth? Why?

13. Does the fact that many New England farmers have moved westward to better land disprove the law of diminishing returns?

14. In what sense is it true that the extension of agriculture and manufacture involves resort to land less fertile or less advantageously situated than the land previously in use?

15. A certain farmer, by draining and fertilizing his land, has gradually so improved it that it would now yield, to the same amount of labor, twice as much product as formerly. Nevertheless, the cultivation of this land has from the first been attended with diminishing returns. Explain.

16. Point out clearly the distinction between diminishing returns from land and declining fertility of land.

17. Distinguish clearly (*a*) increasing returns from land; (*b*) utilization of better land; (*c*) better utilization of land according to existing agricultural methods; (*d*) effects of the discovery of new and improved agricultural methods.

18. Does the law of diminishing returns apply to land only in the case of its use for agricultural purposes?

19. Does the law of diminishing returns apply to a coal mine? to building sites in the center of a city?

3. The Conservation of Natural Resources

Questions

1. Does conservation mean non-utilization of natural resources, or such utilization as shall cause a minimum impairment of the natural resources of the future?

2. A man owns a tract of timber on a mountain side. If he leaves

it in its natural state the old trees will die out and be wasted, the growth of new trees will be slow, and the presence of dead wood and underbrush may increase the danger of loss by fire. If he cuts gradually and scientifically he may get a regular income from the timber removed and yet improve the quality of what remains. If he cuts all off at once he will realize the largest immediate revenue above expenses of lumbering, but the land will be wasted by washing and by a useless second-growth. Which procedure would be conservation?

3. Does conservation require a sacrifice of the present generation for the benefit of future generations? On what grounds could such a sacrifice be demanded?

4. It is argued that the public land policy of this country, by disposing of lands at a nominal price, has led to wasteful agriculture. What is meant by wasteful agriculture? Would anyone deliberately waste his own land?

5. European visitors to the United States have often been shocked at the apparent wastefulness of the extensive cultivation practiced on American plantations and farms. Would it have been less wasteful to practice farming in this county after the fashion of European peasants who build stone terraces to hold the soil on hill slopes, or carry home by hand bundles of hay which they have mowed on the mountain side?

6. What should you say to the statement that nobody can afford to practice conservation in his own interest until most of the resources which might have been conserved are already exhausted? Does this suggest that conservation should be a governmental function?

7. Since the beginning of the petroleum industry in this country the output has been doubling every nine years. At this rate of development the present known supply of petroleum will be exhausted by 1935. What measures might be adopted to make the supply hold out longer? Have substitutes for petroleum been invented in the past? Can you foresee further substitution?

8. It has been contended that the supply of phosphates in the United States should be guarded by prohibiting their export. Would this be wise? If other nations retaliated by prohibiting the export of their raw products should we be better or worse off than before?

9. The coal supply in this country, according to a recent estimate, will be exhausted in 150 years. What economies in the use of coal might be practiced in order to conserve this resource?

10. Suggest methods of safeguarding the future of our timber-supply.

III. Labor and the Productive Process

1. *The Definition of Labor*
2. *The Elements of the Labor Power of a Community*
3. *The Conservation of Human Energy*
4. *The Increase of Population*

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1. The Definition of Labor

Questions

1. Should the effort of a dray-horse be called labor?
2. Give examples of human activity which should unquestionably be regarded as labor.
3. Give examples of human activity which clearly is not to be regarded as labor.
4. Is the effort of the following to be called labor: a banker, a college football player, a professional baseball player, a promoter, an opera singer, a hod-carrier, a preacher, a voluntary settlement-worker?
5. Should you call the hod-carrier a laborer if he worked for pleasure? Should you call the college football player a laborer if he were given his board?
6. In order that human activity should be regarded as labor is it necessary that it should (*a*) be attended with a sense of unpleasant effort? (*b*) be physical rather than mental? (*c*) be intended as a means to an end, rather than be desirable in itself? (*d*) actually result in a product? (*e*) result in a material product? (*f*) command remuneration in money or the equivalent?
7. In the light of the preceding questions how should you define labor?
8. Is the necessity of labor peculiar to the present organization of society? Can you conceive of any social reform which might abolish the necessity of labor?

2. The Elements of the Labor Power of a Community

a) *The Number of Laborers* (see the topic "Increase of population" below)

b) *The Efficiency of Each Individual*

i. Health and Strength
ii. Mental Qualities
iii. Moral Qualities
iv. Social Conditions

c) *Time of Labor*
d) *Division of Labor* (treated under "Organization")

Questions

1. What is meant by "efficiency" of labor?
2. Is efficiency an absolutely definite quality, inherent in an individual, and independent of social conditions?
3. How largely is efficiency due to (*a*) innate capacity? (*b*) training and the opportunity to work at the task for which one is best fitted?
4. Mention some of the mental qualities which ordinarily conduce to the efficiency of a workman.
5. What moral qualities can you cite to explain the superior efficiency of American laborers?
6. Would ambitious and alert self-interest, apart from social or altruistic motives, result in the highest efficiency of labor?
7. To what extent is the efficiency of labor dependent on the intelligence and consideration shown by employers?
8. Judging by the present direction of industrial development, is physique, intellect, or social organization likely to count for most in any future increase of productive efficiency?

3. The Conservation of Human Energy

The following scheme indicates some of the forms of the waste of human energy:

Examples of the Waste of Human Energy

a) *Destructive Occupation*

i. Persons Consciously or Unconsciously Engaged in Work Contrary to Public Interests: criminal classes.
ii. Persons in Unhealthful or Hazardous Occupations: child-laborers; women working under unsuitable conditions.

b) *Dependency*

The Unemployable: defectives; degenerates; invalids; persons temporarily ill or disabled.

c) *Idleness*

i. The Unemployed
ii. The Voluntarily Idle

d) Inadequate Occupation

The Imperfectly Employed: uneducated persons; persons in occupations unsuited to their capacities, as a result of ignorance, thoughtlessness, conventions, or lack of opportunity; dilettanti.

QUESTIONS

1. Analyze the causes for the different forms of waste above indicated, and point out in each case promising means of reform.

2. Is a waste of labor power involved in (*a*) the care of the sick? (*b*) the care of persons too young to work? (*c*) the care of persons too old to work? (*d*) compulsory school attendance? (*e*) premature death? (*f*) militarism? (*g*) debauchery?

3. A recent investigation showed that deaths from consumption amounted to 36 per cent of all deaths among stone cutters, and to but 6.2 per cent among workers on farms. What is the reason for the difference? Can the evil be remedied?

4. The deaths from accidents in Pennsylvania coal mines for the ten years 1899–1908 reached a total of 9,937. In Illinois, in the same ten years, 1,391 deaths in coal mines were recorded, and 5,423 cases of injury, which caused an average of 53 days of disability to each of the men who ultimately recovered. Precautions against such disasters would be costly for mine owners. Would they be more costly to society at large than the accidents which now occur?

5. Of the 29 millions of people working in the United States it is estimated that over half a million annually are killed or crippled—a greater total than that of the killed and wounded on both sides in the Japanese-Russian war. Would it be well to supplement the peace movement by an equally serious attempt to lessen the risks of industry?

6. A competent authority estimates that "the actual economic saving annually possible in this country by preventing needless deaths, needless illness (serious and minor), and needless fatigue, is certainly far greater than one and a half billions, and may be three or more times as great." In view of the fact that the minimum estimate here given amounts to about three times the total ordinary annual receipts of the federal government, and rather exceeds the annual aggregate value of exports from the United States, should you regard the conservation of human energy as a less important economy than the preservation of forests, water-power, or mineral lands?

7. European statistics indicate that the average length of life has roughly doubled since the sixteenth century. Consider the economic saving involved. Has the limit of improvement been reached?

8. What judgment, considering the matter from the point of view of production, is to be passed on an idle rich man?

9. Are the members of the leisure class presumably persons of greater or less capacity than the average man or woman? How much does society lose by their idleness?

10. Is it possible to tell by a man's earnings whether he is (*a*) destructively employed? (*b*) imperfectly employed?

11. Does the fact that many persons go to college for social opportunities, rather than to fit themselves for work, cause them to be more or less imperfectly employed than they would otherwise have been?

12. Can you demonstrate that it would be to the economic advantage of the community at large if every workman received such wages as should enable him to work at maximum efficiency—i.e., to produce the largest possible output relatively to the cost of his maintenance? Is such a result actually attained? Why?

13. Cite instances in which the competitive system tends (*a*) to increase the waste of human energy; (*b*) to prevent such waste.

4. The Increase of Population

a) *Natural Increase*

b) *Immigration*

The theory of population has commonly been discussed as if it were essentially the explanation of the number of laborers, because the supply of labor has some relation to the total population. In deference to that usage it is introduced at this point; though properly the problem of population is much broader and involves not only man as a producer but also man as a consumer.

Populations are increased (*a*) by excess of births over deaths, or natural increase, and (*b*) by excess of immigration over emigration.

a) *Natural Increase*

i. The Problem of Numbers

ii. The Problem of Quality

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i. *The Problem of Numbers*

Questions

1. State in your own words the Malthusian theory of population.

2. When was Malthus' *Essay on the Principle of Population* published? Was the increase of population greater cause for concern then than now? Why?

3. Point out the relation between the Malthusian theory and the law of diminishing returns from land.

4. What are positive checks? preventive checks? How has the relative importance of these two classes of checks changed since Malthus wrote?

5. What is the standard of living? Does the standard of living affect the birth-rate? How? Does it affect the death-rate? How?

6. Should you expect the practice of preventive checks, for economic reasons, to be most effectual among the poor, the classes of moderate means, or the rich?

7. Statistical investigations of the birth-rates in the richest and the poorest quarters of a number of cities have indicated that the birth-rate among the very poor is commonly from three to five times as high as among the very rich. What economic explanations of this phenomenon can you suggest? What other social factors may help to explain it?

8. Is there any present danger of overpopulation, in general? locally?

9. Does the phenomenon of "race suicide" disprove the Malthusian theory?

10. Try to restate the essential idea of the Malthusian theory in a form which you believe is true today.

ii. *The Problem of Quality*

Questions

1. The following figures are based on recent vital statistics of graduate classes in one of the large American universities:

Year of Graduation	Number Graduated	Sons Born
1875	142	123
1880	175	145
1885	193	129
1890	302	180

Are these university graduates maintaining their own numbers in the population? Is the fact a cause for apprehension? Why?

2. In general, is it disadvantageous for society that the educated, successful, and well-to-do classes should be characterized by a comparatively low marriage-rate and an extremely low birth-rate? Why?

3. Can strictly hereditary human characteristics be distinguished from the influences of parental example, education, and the environment in general? In the interest of social reform is it important that we should be able to make the distinction? Why?

4. The new science of eugenics "deals with those social agencies that influence, mentally or physically, the racial qualities of future generations." In practice, eugenic reform may attempt primarily

either (*a*) to encourage the increase of the best elements in the population, or (*b*) to prevent the increase of the worst. Which policy seems to you more likely to be successful?

b) *Immigration*

Migration—the redistribution of population—includes internal migration (as in the case of persons leaving the country for the city), and also the migration over sea, or across national boundaries, which we call emigration and immigration. Immigration, notably conspicuous in the United States, calls for special comment at this point because of its bearing upon American labor conditions.

QUESTIONS

1. Name the more important motives by which persons are (*a*) caused to leave the country of their birth; (*b*) attracted to other countries.

2. Give examples from the experience of this country of types of immigrants whose coming has been due to the several causes indicated in your answer to the preceding question.

3. Explain the great fluctuations of the movement of immigrants to the United States since 1820.

4. What great change in the prevailing character of our immigrants has occurred within the last generation?

5. It is argued that cheap immigrant labor is like machinery—an added aid in production which relieves the (native) laboring class from heavy and disagreeable toil. Is the analogy true?

6. Why do so many employers oppose restriction of immigration? Is such opposition in accord with the interests of society in general?

7. Why is the immigration of the Chinese subject to special restrictions?

8. What currents of internal migration have been observable in the United States?

9. Studies of the populations of great cities in Europe and America have shown that ordinarily nearly three-fourths of city-dwellers between the ages of 25 and 55 are persons born elsewhere. Consider how this evidence of the drift of population toward cities bears upon the problem of distributing throughout the United States our foreign immigrants, over 85 per cent of whom enter the country at New York, Boston, Philadelphia, and Baltimore.

10. Would restriction of immigration be justified if the congestion of immigrants in cities and along the seaboard could be prevented, and the foreign elements distributed over the whole country?

11. It has been contended that our population is no larger today than it would have been if there had been no immigration. Can this be true? Tell why you answer as you do.

12. Should immigration be prohibited? restricted? If restrictions are imposed, should they limit the number of immigrants, or fix a test of the quality of immigrants, or do both?

IV. Capital and the Productive Process

1. *The Definition and Function of Capital*
2. *The Accumulation and Conservation of Capital*

1. The Definition and Function of Capital

From the social point of view capital may be defined as the material instruments which man uses in production. The question of who *owns* these instruments or whether anyone owns them matters little. They may be owned by private individuals or by the state—they are still aids in production. From the acquisitive point of view capital is material goods which yield an income. This will include producers' goods, but also some consumers' goods. As we are now concerned with the productive process we shall, for the present, consider capital mainly from the social point of view—i.e., as producers' goods.

Questions

1. Make a list of things which are clearly capital.
2. Make a list of things which are clearly not capital.
3. Make a list of things concerning the classification of which you are in doubt.
4. Are the following capital: pig iron; a plow; candy on the shelves of a retail dealer; a package of tobacco belonging to a laborer; a carriage; coal?
5. Capital has been described as (*a*) future goods; (*b*) inchoate wealth; (*c*) intermediate products. What aspect of the function of capital does each of these phrases suggest? Illustrate each by two or three examples.
6. Name some employment, if you can, in which labor produces without capital.
7. In what sense does capital produce? Does capital yield a product apart from the employment of labor? apart from the use of land?
8. The process of producing with the aid of capital has been called indirect or roundabout production. Why?

9. Why go to work to make a machine to make a machine to make a machine to produce a pair of shoes? Would it not be better to avoid all that roundabout process and have a cobbler make them in the first place?

10. It has been said that the intention of the owner determines whether a thing is capital or not. Is this statement always true? Is it ever true? Could a cotton mill be a consumers' good? Suppose the owner exchanged it for a country house; would the mill then be capital?

11. "A good education is the best of investments." Is an educated mind capital?

12. Should you regard as capital the trained skill of (*a*) an opera-singer? (*b*) a portrait-painter? (*c*) a surgeon? (*d*) a stone-cutter?

13. Capital is subdivided into fixed and circulating capital, specialized and free capital. Give examples of each sort of capital.

14. What does the business man ordinarily mean when he speaks of capital? Is his view essentially different from that which is outlined here?

15. Is money capital?

16. Are securities capital?

17. State the main points of difference between capital and land.

18. Capital has been variously defined, with reference to production, as (*a*) wealth (excluding land) devoted to the further production of wealth; (*b*) wealth (excluding land) devoted to further production; (*c*) past products devoted to further production. Which definition do you prefer? Why? Do these definitions embody the idea suggested by such terms as "future goods," or "inchoate wealth"?

2. The Accumulation and Conservation of Capital

The creation of capital goods is due to the fact that persons, attracted by the superior efficiency of capitalistic production, are induced to forego consumption which they might have enjoyed and to devote to the making of producers' goods the effort that otherwise would have been expended in making goods for their immediate satisfaction. Other aspects of the accumulation of capital by saving will be considered in connection with the problem of the rate of interest. Attention is here concentrated on the economic importance of the accumulation and maintenance of the capital goods which saving makes possible.

Questions

1. Assuming that capital has in general been found to increase the efficiency of industry, show (*a*) that diminution of capital regularly involves social loss; (*b*) that an individual may sometimes benefit by

the sacrifice of capital; but (*c*) that such individual advantage is ordinarily secured at the expense of a decrease in the productivity of industry as a whole.

2. Does capital—e.g., freight cars, looms, coke—literally replace itself? Does it make possible its own replacement? In what sense?

3. What is meant by a "replacement fund"? What is a "depreciation charge"?

4. Suppose a sugar refiner decides to go into the silk-spinning business. Can he use his old equipment in his new factory? In what sense can he withdraw his capital from one industry and invest it in another?

5. In actual practice how is the amount of invested capital kept adjusted to the growth or decline of each branch of industry?

6. In what ways does increase of capital conduce to the welfare of the laboring classes?

7. Should we naturally expect a great fire to increase the amount of employment for working-people generally? Explain.

8. Speaking of the Galveston flood, a writer said: "Fortunately, such events are not unmixed evils. Employment will now be found for many laborers and this benefit should not be forgotten or minimized by us." What do you think of the statement?

9. Often it is said that extravagant expenditure for luxuries is good for industry because it "puts money in circulation." Would it be better for industry if the money were spent to build factories, instal machinery, and increase capital generally?

10. Is the miser or the spendthrift the more useful member of society?

V. Organization and the Productive Process

1. *Specialization*
2. *The Economic Proportioning of the Productive Factors*
3. *Present Forms of Industrial Organization*
4. *Modern Organization Exemplified by Certain Industries*

In the discussion of Land, Labor, and Capital in their relation to the productive process attention was given chiefly to facts and principles which would hold true under practically any organization of society. The problem now before us is to examine the main features of the *present* organization—to see how the forces we have been discussing are actually utilized today. This inquiry is not an inquiry into the wisdom or lack of wisdom of the present organization. It is a specific inquiry into particular facts, and into the principles which underlie them.

1. Specialization

a) Specialization in Relation to Exchange
b) The Separation of Occupations
c) The Division of Labor
d) Territorial or Geographical Specialization
  i. Grouping of Related Industries
  ii. Grouping of Many Plants of the Same Industry
e) Factors Limiting the Degree of Specialization
  i. The Nature of the Industry
  ii. The Extent of the Market. (Note the relation of transportation to the extent of the market.)
  iii. Social Institutions
  iv. Financial Organization

Questions

1. Is any specialization of economic activity possible so long as every individual must supply all his needs independently? For example, could the distinction between farmer and hunter, or between hunter and fisherman, arise under such conditions?

2. Does the domestic specialization according to which the woman cooks and weaves, while the man hunts or cultivates the soil, depend on exchange?

3. Can you think of anyone today who engages in every kind of work necessary to produce the commodities which he uses?

4. Why can more be produced by a given number of persons if each devotes himself to a special operation?

5. Do the advantages of specialization apply to the use of capital and land as well as to the employment of labor?

6. Give examples from your own observation of (*a*) the division of labor; (*b*) territorial grouping of related industries; (*c*) territorial grouping of plants of the same industry.

7. What were the motives that led to the specialization you have mentioned in answering (*b*) and (*c*) under Question 6?

8. Give concrete examples of cases where specialization is limited by the nature of the industry itself.

9. Can specialization be carried as far in bicycle repair shops as in bicycle manufacturing? Why or why not?

10. Give examples of specialized occupations which are made possible by the degree of exchange co-operation which exists within (*a*) small villages; (*b*) towns of 5,000 inhabitants; (*c*) large cities.

11. Show specifically how specialization has depended on the widening of the market.

12. Is it in general more true that widening markets have led to specialization, or that the increased productivity of specialized industry has enlarged markets?

13. Now-a-days one machine completes the process of pin-making which in Adam Smith's day occupied ten men. Has there been an increase or a decrease in specialization?

14. What new forms of specialization and what enlargements of the market accompanied the transition from the handicraft system to the factory system?

15. Show how specialization of industry in respect to (*a*) products and (*b*) location is related to the development of transportation.

16. Cite instances where social institutions affect the degree of specialization.

17. How has the increasing economic freedom of women reacted upon specialization? What further changes may be expected?

18. Show the relation of financial organization to the extent of specialization.

2. The Economic Proportioning of the Productive Factors

The question of the proportioning of the productive factors is simply a question of the law of return. Up to the present time the law of return has been discussed in its application to land alone. It is now to be noted that this law is one of general application. In discussing it the following distinctions must be considered:

a) What conditions are assumed as regards methods?
  i. Unchanged methods (static laws of return)
  ii. Progress (dynamic laws of return)

b) Are we employing measures of number and quantity, or of value,
  i. As regards the product?
  ii. As regards the productive factors?

Questions

1. A market gardener has been cultivating a 10-acre plot with the aid of 6 men and an appropriate outfit of tools. Suppose that with the same land and the same tools he were to set at work 10, or 50, or 100 men. Would the crop increase in proportion to the increase in the number of laborers? Would it remain as before—i.e., in proportion to the unchanged land and tools?

2. Suppose the gardener continued to employ 6 men on his land but doubled, or increased a hundred fold, the equipment of tools. Would the crop increase in proportion to the increase in equipment? Would it remain unchanged?

3. Suppose the gardener continued to employ 6 men with the original outfit of tools, but increased his acreage to 25, or 100, or 1,000 acres. Would the crop increase in proportion to the increase of acreage? Would it remain unchanged?

4. Assuming that the gardener was originally cultivating his land intelligently, what should he do to double his crop?

5. The phenomenon of diminishing returns (or of increasing returns, as the case may be) is said to be essentially dependent on the proportion of the productive factors. Explain.

6. Devise an illustration of (*a*) increasing returns from a spinning-mill; (*b*) diminishing returns from the labor of a given gang of stokers on a steamship. State the conditions of each illustration (1) without reference to money value; (2) in terms of money value.

7. Are diminishing returns synonymous with reduced profits?

8. Is the principle of diminishing returns disproved by the fact that the per capita product of industry is greater today than two hundred years ago?

3. Present Forms of Industrial Organization

a) Forms of Business Organization

b) The Size of the Most Efficient Unit

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a) Forms of Business Organization

i. The Individual Firm

ii. The Partnership

iii. The Corporation

iv. Co-operative Enterprise (treated under "Social Reform")

Questions

1. What are the chief points of difference between a corporation and a partnership?

2. Why was it that the corporation did not become a common form of business organization until the nineteenth century? What were the usual forms of organization before that time?

3. What advantages has a corporation as compared with a partnership? Are there any respects in which a partnership has advantages not possessed by a corporation?

4. What is a holding company? What are the advantages afforded by this form of organization? What are its objectionable features?

5. What are the main points of difference between a share of stock and a bond? Why is a bond generally considered a safer investment than a share of stock?

6. Define common stock, cumulative preferred stock, mortgage bond, collateral trust bond, income bond, refunding bond, coupon bond, registered bond.

7. Where and how does a corporation secure a charter? What provisions does the charter ordinarily contain?

8. A corporation has outstanding $1,000,000 of 5 per cent mortgage bonds, $10,000,000 of 7 per cent preferred stock, and $10,000,000 of common stock. Gross annual earnings are $11,950,000; total expenses for the year are $9,900,000, and depreciation of the plant amounts to 10 per cent on a valuation of $11,000,000. What is the amount of net earnings, and how will this amount be distributed among the holders of the different securities?

9. In the case of the corporation described in the preceding question what would be the effect upon the dividends on the common stock if all the preferred stock were converted into 5 per cent mortgage bonds? Would this be a wise move if the business were likely to fluctuate so that the net earnings of the corporation would be cut in half?

10. In 1896 the following situation existed:

Company	Common Stock	Dividends
A	$3,000,000	10 per cent
B	2,000,000	8 per cent
C	1,000,000	10 per cent

On January 1, 1897, a holding company, D, absorbs all their stock, and in 1897 D gets, in addition to the former earnings, $500,000 monopoly profits and $100,000 by saving the wastes of competition. What dividends could D pay if its capital stock were 6,000,000?

b) The Size of the Most Efficient Unit

Questions

1. Is it likely that large factories will ever be devoted to portrait painting? Give reasons.

2. For which of the following articles is large-scale production appropriate: hand-made shoes; machine-made shoes; jewelry; nails, cut glass; orchids; millinery; mowing machines?

3. Edison proposes to develop a method of housebuilding by pouring cement into a system of structural molds which may be used over and over. Are such houses likely to be in demand? Why?

4. Generalizing your answers to the preceding questions, what classes of products are likely to be produced on a large scale?

5. The following are sometimes claimed to be advantages of large-scale production: (*a*) saving of cross-freights; (*b*) running plants to

full capacity; (*c*) economies in advertising; (*d*) utilization of by-products; (*e*) saving in expenses of administration; (*f*) employment of high-grade technological experts and managers; (*g*) development of foreign markets; (*h*) use of highly specialized machinery; (*i*) control of patents; (*j*) maintaining a private insurance-fund. Classify these alleged advantages, showing the relation of each to (1) large-scale production, as attained in a single large plant; (2) combination, i.e., unified control of several plants in different localities; (3) monopoly; (4) integration of industry, i.e., uniting of consecutive processes.

6. Are there any disadvantages in large-scale production?

7. Do you understand that all businesses are destined to become large-scale businesses?

8. The gains due to large-scale production are sometimes called "increasing returns," and on this ground it has been said that agriculture is normally marked by diminishing returns, manufacture, by increasing returns. Are the advantages named in Question 5 true instances of increasing returns?

9. Give examples of the integration of industry in (*a*) mining; (*b*) manufacturing; (*c*) selling.

4. Modern Organization Exemplified by Certain Industries

a) *Agriculture*
b) *Transportation*
c) *Manufactures: Large-Scale Industry—the Trusts*

No attempt is made at this point to treat the conditions of modern organization comprehensively. Agriculture, railroads, and the trusts form by no means an exhaustive list. Labor unions, employers' associations, co-operative associations, etc., are also examples of organization but are reserved for discussion elsewhere. The present discussion is designed to cover merely a few illustrative cases.

a) *Agriculture*

This industry is properly called one of our basic industries. It is the source of most of our food supply and also of many of our raw materials for manufactures. American manufacturing is in fact to a considerable extent a working-up of agricultural produce into such form (e.g., flour) as can more economically be transported and sold in a wide market. In interpreting figures showing the value of manufactures of the United States one should therefore remember that a large proportion of the total value is to be referred to the raw agricultural products which constitute the material for manufacture.

Questions

1. The rural population of the United States was 87.5 per cent of the total population in 1850; 83.9 per cent, in 1860; 79.1 per cent, in 1870; 77.4 per cent, in 1880; 70.8 per cent, in 1890; and 66.9 per cent, in 1900. What is the reason for the decline? Do the figures show an absolute, or only a relative falling off of rural population?

2. What causes make it possible for the percentage of our population engaged in agriculture to decrease steadily?

3. Why have many people left the farms for other pursuits? Is this migration likely to continue?

4. What reasons can you assign for the fact that large-scale production is not a characteristic of this industry? Do you think that the scale is likely to be increased in the future?

5. Agricultural experts tell us that by using present amounts of labor, land, and capital according to the most efficient plans of agricultural organization already known, the productive efficiency in this industry could be doubled in a year. Why is this not done? What forces are making in this direction?

6. Do you think the forces of custom, habit, and inertia are stronger in agriculture than in other pursuits?

7. What do you think the agricultural colleges accomplish in the improvement of agricultural methods?

8. Explain how land that sold for $2 per acre when it would produce 75 bushels of corn, can now sell for $100 per acre when it produces only 40 bushels. If this is characteristic of our agricultural land, has this natural resource increased or decreased?

9. When good means of transportation opened up markets for the produce of the western pioneers, what changes took place in agricultural organization?

10. Under what conditions are we apt to have diversified farming? single-crop farming?

11. Can you say whether the tendency of American farming is toward or away from extreme specialization?

12. Give examples of the "integration of industry" in agriculture.

13. Why were there no immense wheat farms when the Middle West was first settled? Why did they appear later? Why are they being broken up today?

14. Why is agriculture in Europe more intensive than in the United States?

15. What inventions and innovations have improved the conditions of farm life in recent years?

b) *Transportation*

i. Transportation in General
ii. Railroad Transportation

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i. *Transportation in General*

QUESTIONS

1. Mention commodities in the production of which transportation is the chief factor. Can you think of commodities in the production of which transportation is insignificant?

2. Bituminous coal which costs roughly $1 per ton at the mines in southern Illinois costs about $2 at Chicago. The superior coal of West Virginia, which costs $1 or slightly less at the mine, sells for about $3 in Chicago. How do you explain this enhancement of price? What does it suggest with reference to the location of industry?

3. Enumerate as many as possible of the means used for the transportation of goods in this country.

4. A package of goods is shipped from London to Chicago. The freight charges are: for the ocean transportation from London to New York, $2, and for railroad transportation from New York to Chicago, $1. But the consignee pays 50 cents for cartage in New York and 50 cents for delivery in Chicago, and gives 25 cents to the porter who carries the package upstairs at the destination. Why is it necessary to pay nearly a third of the total expense for carrying the goods a thousandth part of the total distance?

5. Before the Erie Canal was constructed, the hauling of a ton of wheat over the roads from Buffalo to New York cost $100. As facilities for transportation improved it was found that a horse could draw on a turnpike three times the load, and in a canal-boat twenty-five times the load which he could draw on ordinary earth roads. Today steam transportation permits the profitable shipment of wheat from the far West to Liverpool. Why do earth roads and horse-drawn canal boats continue to be used?

6. What accounts for the present revival of interest in waterways in this country?

7. How has the development of transportation methods in general influenced (*a*) the scale of industry? (*b*) specialization? (*c*) distribution and concentration of population?

8. Are local famines likely to be as serious in the future as they have been in the past?

9. It has been contended that improved means of transportation have tended (*a*) to equalize conditions of living in different parts of

the world; (*b*) to better the living conditions of the lower classes. Do you agree?

ii. *Railroad Transportation*

(*a*) The Development of Railroad Transportation
(*b*) Characteristics of the Railroad Industry
(*c*) Railroad Rates

(*a*) *The Development of Railroad Transportation*

QUESTIONS

1. Show how the development of railroad transportation in the United States has been influenced by (*a*) the inventions of the multitubular boiler and the forced draft; (*b*) coal supply; (*c*) cheapened production of steel.

2. The early railroad construction in this country was of a flimsy and temporary character. Has that fact hindered or aided advance in railway methods?

3. Illustrate by examples the effect of the following factors on the location of railroads: (*a*) watercourses; (*b*) mountains; (*c*) climatic conditions; (*d*) seaports.

4. Have American railroads in general followed or directed the course of settlement of the country?

5. Has railroad transportation relieved or aggravated the problem of great cities?

6. Has the American railroad in greater degree benefited the Dakota farmer or the London consumer?

7. The efficiency of modern railroad transportation is attested by the example of a certain American railroad which is said to haul freight at an average cost of one mill per ton-mile. Should you regard it as worth your while to carry a ton of goods a mile for a tenth of a cent? How is the railroad able to do it?

(*b*) *Characteristics of the Railroad Industry*

QUESTIONS

1. Is the importance of capital, as contrasted with labor, greater or less in the railway industry than in industry in general?

2. Is the capital of railroads predominantly fixed or circulating? specialized or free?

3. Railway competition assumes a great variety of forms. Show

how the business of a railroad might be threatened by the competition of (*a*) a parallel railway line; (*b*) a roundabout railway route; (*c*) ocean navigation; (*d*) inland waterways; (*e*) rival inland cities; (*f*) rival seaports.

4. Can a railroad readily withdraw from a region in which competition has become too severe?

5. What advantages do railroads derive from (*a*) large scale of operation, as such? (*b*) combination of parallel lines? (*c*) consolidation of connecting lines? (*d*) control of terminals, docks, etc.?

(*c*) *Railroad Rates*

The problem of the determination of railroad rates—i.e., the prices charged for the services of railroads—is here presented for discussion before the subject of price-determination in general has been reached. The study of rates, however, so clearly reveals some of the economic characteristics of the railroad industry that certain general aspects of rate-making are taken up at this point.

Questions

1. If a railroad between New York and Chicago is already in existence and trains are running, what *added* cost would the railroad incur if it hauled a five-pound box from Chicago to New York?

2. Would it be good business policy for the road to haul such a box at a rate only a little in excess of this added cost if it could get no more for the service? Would it be good policy to haul all traffic at such rates?

3. Suppose empty cars were being hauled in a certain direction. Would a railroad be justified in offering to haul traffic in that direction at very low rates? If so, under what circumstances? If not, why not? Would your answer be the same from a social point of view as from the point of view of the railroad management?

4. Explain the distinction between direct cost and indirect cost. Can you think of any circumstances under which it would be wise (*a*) from the railroad's point of view, (*b*) from the social point of view, for a railroad to charge less than direct cost?

5. In the following analytical table of railroad expenses (dividend payments not considered) the figures of column III, showing the percentage of total expenses chargeable to each specified class of expenditures, are divided in such a way as to indicate how much in each instance must be paid out regardless of the volume of traffic (column I) and how much bears a relation to the volume of traffic (column II).

	I	II	III
	Independent of Volume of Traffic	Dependent on Volume of Traffic	Total
Fixed charges	25	0	25
General operating expenses	3	0	3
Maintenance of way and structures	10	6	16
Maintenance of equipment	7	7	14
Conducting transportation	14	28	42
Total operating expenses	34	41	75
Total	59	41	100

From a study of the above table should you expect a railroad to fight strenuously (*a*) to keep traffic? (*b*) to gain new traffic? Why do you answer as you do?

6. The following table illustrates how a 10 per cent increase in traffic, with no change in rates, may increase dividends 122 per cent:

	Before the Increase in Traffic	After the Increase in Traffic
Volume of traffic represented by	100	110
Gross revenue represented by	100	110
Operating expenses (66.7) of which		
(*a*) .5 are not affected by increase of traffic	33.3	33.3
(*b*) .4 are affected only by a large increase of traffic	26.7	26.7
(*c*) .1 is affected by small increase of traffic	6.7	7.4
Fixed charges	25.7	25.7
Total cost (operating expenses plus fixed charges)	92.4	93.1
Available for dividends	7.6	16.9

What do you think would have been the result if there had occurred a 10 per cent decrease of traffic? Suppose prices of materials, labor, etc., rose at the same time that traffic increased. Should the road be allowed to increase its rates? Can you answer this on the basis of the data above given?

7. Sometimes it is argued that not cost of transportation but the value of the service rendered by transportation should determine the rate. How is the value of the service to be determined?

8. Work out a concrete case in which "cost of service" gives no guidance in rate-making. Do the same with reference to "value of service."

9. Formulate a statement of what "charging what the traffic will bear" means.

10. Rates on California and Florida fruits are made such as to enable these fruits to compete even in each other's territory. Cali-

fornia lemons are similarly enabled to compete with lemons from Sicily. Lumber from Oregon competes in Boston with lumber from Maine. How can these things be done? Does the practice of quoting such rates benefit (*a*) the fruit-grower and the lumberman? (*b*) the consumer? (*c*) the railroad?

11. A certain railroad runs between two seaboard cities which are also connected by competing railway and steamship lines. Between intermediate points on its own line it has a monopoly of the freight traffic. Under these circumstances might it actually charge more for the short haul between two intermediate points than for the longer haul between the terminal cities? Why? Is such charging of higher rates for the shorter haul objectionable?

12. Suppose you were a traffic manager and a shipper came to you with a commodity recently brought into market, asking you to name a rate. What conditions should you need to take into account?

13. What is meant by discrimination in rate-making? Describe as many forms of discrimination as you can think of.

14. Is there any objection to the practice of selling goods cheaper in large quantities—e.g., cigars at 10 cents each, 3 for a quarter? Is it wrong for a railroad to sell a monthly commutation ticket at less than thirty times the single-trip rate? Why is it wrong for a railroad to quote special rates to a corporation which agrees to make large and regular shipments?

15. The cost of transportation is often an almost negligible element of the total cost of an article. For example, the transportation-cost of assembling at St. Louis the materials for a pair of shoes is $1\frac{1}{4}$ cents; and the average cost of shipping the finished shoes to their destination is from 2 to 3 cents per pair. In such a case is it worth while to question whether the railroad rate is reasonable or not?

16. State the principal provisions of the Interstate Commerce Act and its amendments.

17. It has been said that the most serious defect of the Interstate Commerce Act is the attempt to prohibit, at one and the same time, discriminations and pooling. Explain.

18. If the competition of railroads were unqualified by open or secret agreements to maintain rates, would competition by itself be sufficient to assure reasonable railway rates?

19. Why does the competition of railroads so often force them into receiverships and reorganization?

20. Are the economic problems of the railroad business essentially different from the problems of any modern industry in which indirect costs make up a large part of total cost?

c) Manufactures: Large-Scale Industry—the Trusts

i. The Origin of the Trust Problem
ii. The Trust Movement in the United States
iii. The Promotion and Organization of a Trust
iv. Analysis of the Causes of the Growth of Trusts and the Results of the Trust Organization
v. The Lines of Procedure in Dealing with the Trust Problem

i. *The Origin of the Trust Problem*

Monopolies of one form or another have existed from the earliest times, but the present-day trust and the problems to which it gives rise are essentially modern. The industrial world is always changing —is in a constant process of evolution. The changes in the industrial world have been taking place so rapidly that our laws, business ethics, and social institutions have fallen behind and have become antiquated. The consequent maladjustment is the cause of many of our present-day economic problems—among others, the trust problem.

Fundamentally the trust is the product of that stage in the evolution of industrial society which ushered in what is commonly called modern capitalistic industry. The movement began in England, where it became known as the Industrial Revolution, and later, through a slow evolution rather than revolution, spread to the other more advanced nations. Improvements in transportation and many mechanical inventions worked together to bring in the factory system, with a constantly enlarging scale of production and ever-increasing severity of competition. The characteristics of this capitalistic industry were first manifested in the railroad business, but soon they appeared in other industries. Among the more important of these characteristics are the following:

a) The corporation, which facilitated the gathering together and direction of the vast sums of capital now required for successful business undertaking, became the dominant form of business organization. Under the corporate form of organization there appears a growing separation between investors and those who control the investment, thus affording the latter opportunity for manipulation, "high finance" methods, etc. This is especially marked in the holding company—the most common form of organization among the trusts.

b) Localization of industry became more and more marked with the greater division of labor.

c) Integration of industry went hand in hand with larger scale of production.

d) Fierceness of competition increased as the size of a concern expanded and the number of rivals decreased.

e) Centralization of control was hastened by the growing severity of competition and the hope of saving its great attendant wastes, and of gaining, in addition, monopoly profits.

Out of these conditions came the modern trust.

Questions

1. Explain carefully why each of these characteristics of modern capitalistic industry should lead to the growth of trusts.
2. What is a trust?
3. Are all trusts monopolies? Are all monopolies trusts? Is a trust necessarily a corporation? a partnership? an association?

ii. *The Trust Movement in the United States*

The trust movement in the United States may be divided into three periods according to the form of organization which dominated in each: 1870–80, pools; 1880–90, trusts (trustee control); 1890– , corporations, holding companies.

Up to 1897 the number of trusts was comparatively small. Most of the existing trusts were formed between 1898 and 1902, when industrial and financial conditions were especially favorable to their formation. Since 1902 the movement has been much slower.

Questions

1. What is a pool? a trust (in the original sense of the term)? a holding company?
2. Why were the pool and the trust abandoned and the holding company adopted?
3. Is the movement toward combination still going on? Is it likely to continue in the future?

iii. *The Promotion and Organization of a Trust*

Questions

1. What is the function of a promoter?
2. Explain the steps by which a trust is organized.
3. What is meant by the capitalization of a corporation?
4. What is meant by: (*a*) capitalization on the basis of original cost of production? (*b*) capitalization on the basis of cost of reproduction? (*c*) capitalization on the basis of earning capacity? (*d*) capitalization

on the basis of expected earning capacity? (*e*) capitalization on the basis of cash contributed? (*f*) capitalization on the basis of tangible assets?

5. What is stock-watering? Why is it resorted to? Is it practiced only by the trusts?

6. Does stock-watering harm the public? the purchasers of the watered stock? the creditors of the corporation?

7. What difference is there between the act of a corporation which floats stock at par with a capitalization based on earning capacity, and the act of an individual who sells a prosperous business at a high figure because of its being prosperous?

8. Would the evils of stock-watering be prevented by full publicity?

9. Explain the work of the underwriter.

iv. *Analysis of the Causes of the Growth of Trusts and the Results of the Trust Organization*

The main causes of the growth of trusts may be stated as—

a) The advantages of large-scale production.

b) The prospect of obtaining exorbitant monopoly profits
  (1) By control of selling price
  (2) By superior strategic position in bargaining, e.g., with the seller of material or with labor, etc.

c) The saving of the wastes of competition, e.g., the better adjustment of production to demand, saving in advertising, etc.

The following have been minor causes:

d) Special privileges, e.g., railway rebates, tariff favors, patent rights, etc.

e) Methods of competition, e.g., factor agreements and discriminating prices.

f) Promoters' profits, made in organizing trusts.

Questions

1. The following classification of monopolies has been made by Bullock:

a) Personal abilities

b) Legal monopolies:
  (1) Private, as patents, copyrights, etc.
  (2) Public, as postal business, fiscal monopolies, etc.

c) Natural monopolies:
  (1) Control of raw material.

(2) Consumption limited to locality of the plant, e.g., gas, railways, etc.

d) Capitalistic monopolies, agreements, pools, etc.

Does this classification satisfy you? Can you give an example of each kind of monopoly here distinguished? Might it be contended that capitalistic trusts are "natural"?

2. "The trust is efficient from the social point of view." Why or why not?

3. Which of the alleged advantages of large-scale production mentioned in Question 5, p. 31, above, are to be obtained without monopoly?

4. "The trust carries the germ of its own destruction. The alleged advantages of large-scale production are fictitious and the savings of the wastes of competition are more than offset by the wastes of monopoly. Abolish special privileges and improper methods of competition and the trust will die of itself." Do you agree? Why or why not?

5. Is the tariff the "mother of trusts"? To what extent is it responsible for the trusts?

6. Would the abolition of the tariff destroy trusts or result in the formation of international trusts?

7. In what ways does the granting of railroad rebates foster the growth of trusts?

8. Certain of the trusts allow an extra discount from the prices of their products to retailers who agree not to sell the goods of any other manufacturer. Is this practice of "factor agreements" objectionable? Why?

9. How does the practice of discriminating prices favor trusts? Is this practice confined to the trusts?

10. Do trusts tend to raise prices? By what methods can this be determined?

11. How do trusts affect the position of the laborer in bargaining for the sale of his labor?

12. Are there social or political evils which follow from the growth of trusts?

v. *The Lines of Procedure in Dealing with the Trust Problem*

Questions

1. Enumerate the evils for which the trusts can be held responsible.

2. What elements of good, if any, do you see in the trusts?

3. Under the circumstances should the trusts be abolished, be let alone, or be regulated?

4. What has been the policy underlying the trust legislation of this country in the past, and what has been accomplished?

5. Why has not more been accomplished? Was the policy a wise one?

6. What can be accomplished by potential competition? Do you think potential competition is an adequate solution of the problem?

7. What other remedies have been suggested? Do you believe them to be adequate?

8. Do you think it would be wise to attempt to regulate the trusts by methods analogous to those used in regulating the railroads?

9. If you were to attempt to regulate the trusts in such a way as to strike at the special causes of the special evils to which they give rise, what remedies should you suggest?

10. May any of the evils of "high finance" commonly attributed to the trusts be more properly regarded as characteristic of corporations as such? If so, which?

11. What remedies should you suggest for some of these evils of corporations?

E. EXCHANGE

I. Markets
II. Value
III. The Mechanism of Exchange
IV. International Trade

We have seen that the modern industrial society is an exchange society. In this section we shall study the exchange processes in more detail, or, speaking more accurately, we shall study industrial society with especial reference to exchange. There is, of course, no clear line of demarkation between exchange and the productive process; for the production of a good is not complete until, through exchange, it is brought to the consumer, and has attained its full utilities of time and place. Nor are exchange and the distributive process strictly separable. With such intricate, interacting, and complex phenomena it is, however, good scientific method to take first one point of view and then another, and finally to seek to deal with the matter as a whole.

I. Markets

We have come to *assume* "market" as a factor in our industrial life. We make goods "for the market"; we "go to market"; we "study the market"; we speak of "making a market" or "spoiling the market." These expressions could be multiplied indefinitely. We must consider precisely what the term "market" means.

Questions

1. When people congregate at a certain place and exchange goods by barter, can we say that they constitute a market?

2. When you buy chickens from a farmer out in the country are you buying in a market? If so, what constitutes the market? Is it the place? the operation?

3. Is the retail grocery store a market? For whom? Is the *place* the market?

4 Is the wholesale grocery store a market? For whom? Is the *place* the market? Suppose this wholesale grocery has no stock on hand but consists merely of an office, an office force, and means of

communication with importers and producers and customers, is it a market?

5. Are the office and store of the importer a market?

6. When you speak of the tea market do you mean the retailers' market? wholesalers' market? importers' market?

7. Sometimes a distinction is made between a local market and a world market. What distinction exists? Can you name any goods which have a world market? Any which have a local market? Under what conditions will goods have a local market alone?

8. Is a stock exchange a market? Is a produce exchange? If so, for whom?

9. Draw up a definition of market.

10. Show how the market, as you have defined it, has a function in the industrial world.

11. When we say we "watch the stock market," just what do we mean?

12. Where is the market that establishes the market price of wheat?

II. Value

1. *The Nature of Value and Price*
2. *Demand and Supply in Relation to Value*
3. *Normal Value and Normal Price*
4. *Analysis of Demand*
5. *Analysis of Supply*
6. *The Marginal Utility Explanation of Value*
7. *General Questions on Value*

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1. The Nature of Value and Price

The term "value" is used in many senses. In the sense of what is more specifically called "value-in-use" the term is practically synonymous with "utility." Sometimes the word value is employed with an ethical signification. But *in ordinary economic usage value always means power in exchange.* For the economist, the study of value is a study of the terms according to which one commodity is given for another, and also a study of the part that value as thus defined plays in the economic process.

Price is value expressed in terms of some one good, ordinarily money, taken as a standard. In our everyday experience with economic matters we are more likely to talk of price than of value.

Questions

1. "Whiskey is not wealth. It has no permanent value for society." In what sense is the term value used?

2. "It was a valuable lesson for me." In what sense is the term value used?

3. A mercantile establishment advertises "the best values in the city." What is meant here by value?

4. Could a thing have value unless desired? unless scarce?

5. Draw up a sentence in which the word value is used in the sense in which the economist uses it.

6. Would a bag of gold have value to a shipwrecked sailor on a rocky and deserted island? Would a loaf of bread?

7. What good is actually the standard in price calculations today?

8. Just what is a $5 gold piece? If gold should go up in value, would the government put a different quantity of gold in the $5 piece? If wheat should rise in value, would there still be 60 pounds in the bushel?

9. If for any reason the value of gold should fall, what would happen to prices?

10. Could x change in price and still have the same value relation to a, b, and c that it had before?

11. Can there be a general rise or fall of values as the economist uses the term?

12. Can there be a general rise or fall of prices?

13. If prices fall, is the general wealth of the country any less? Are there as many articles of value as before prices fell?

14. Is value an absolute property of things? Is the expression "intrinsic value" defensible—

   a) As an expression meaning the value of the substance of which a thing is made: e.g., "The intrinsic value of a silver dollar is 47 cents"?

   b) As an expression signifying that value is inherent in a thing?

2. Demand and Supply in Relation to Value

The answer to the questions "Why does so much of this commodity exchange for so much of that? Why not for more? Why not for less?" is to be found in the relationship existing between demand and supply.

Demand and supply are terms of which the general meaning is more or less apparent, but which are by no means easily defined with accuracy. The detailed discussion of demand and supply is taken up in secs. 4 and 5, below. Provisionally, we may reckon demand

in terms of the quantity of a good which will be purchased at a given price, and take supply to mean the quantity which will be offered for sale at a given price.

By experience of market conditions one may with some approach to accuracy predict how many units of a good would be demanded in a community at each of several possible prices. Suppose, for example,

At	10c.	per	lb.	there	would	be	taken	50	lbs.
"	9c.	"	"	"	"	"	"	70	"
"	8c.	"	"	"	"	"	"	100	"
"	7c.	"	"	"	"	"	"	150	"
"	6c.	"	"	"	"	"	"	250	"
"	5c.	"	"	"	"	"	"	400	"
"	4c.	"	"	"	"	"	"	600	"
"	3c.	"	"	"	"	"	"	900	"
"	2c.	"	"	"	"	"	"	1,500	"
"	1c.	"	"	"	"	"	"	2,500	"

This tabular statement would then constitute a *demand schedule.* If the same data were plotted graphically they would give a *demand curve.*

Again, suppose that

For	1c.	per	lb.	there	would	be	supplied	0	lbs.
"	2c.	"	"	"	"	"	"	0	"
"	3c.	"	"	"	"	"	"	50	"
"	4c.	"	"	"	"	"	"	100	"
"	5c.	"	"	"	"	"	"	400	"
"	6c.	"	"	"	"	"	"	1,000	"
"	7c.	"	"	"	"	"	"	1,500	"
"	8c.	"	"	"	"	"	"	1,800	"
"	9c.	"	"	"	"	"	"	2,000	"
"	10c.	"	"	"	"	"	"	2,100	"

This tabular statement would constitute a *supply schedule.* The corresponding graphic representation would give a *supply curve.*

Questions

1. Under the conditions of demand and supply stated in the above schedules, at what price per pound would the demand for the commodity be equal to the supply?

2. Can you establish that this price is the market price which will prevail under the assumed circumstances?

3. Show why, under the assumed conditions, the price could not be 4 cents or 6 cents per pound.

4. Can there be more than one price for a given commodity in the same market at the same time? Why or why not?

5. Plot on one piece of paper the curves representing the conditions of demand and supply tabulated above, using the same axes and the same scale for both curves. What point is common to the two curves? What does this signify?

6. Will doubling the demand for a good double its value? (Doubled demand means demand for twice as much as before at each given price.)

7. If prices vary with demand and supply, how is it possible for a store to maintain fixed prices for many commodities?

3. Normal Value and Normal Price

The value which is actually fixed by the competitive conditions of purchase and sale of any commodity is called *market value. Market price* is market value expressed in terms of money.

Contrasted with this actual, observed market value (or market price) is *normal value* (or *normal price*)—the ideal value (or price) which might a priori be expected to prevail in the long run.

Normal value, in its superficial aspect, is an average value, above and below which momentary market values fluctuate. Regarded more analytically, it is a standard or characteristic value, typical for a given commodity and for the industrial and commercial conditions of a given period, but progressively changing, over longer periods, with the drift of economic change. This latter interpretation of normal value can be more successfully taken up later in connection with "Cost of Production."

Questions

1. Cite instances where market price remains the same over considerable periods of time. Cite instances where market price fluctuates rapidly.

2. A shopkeeper advertises fabrics at 39 cents a yard, "worth 75 cents"; umbrellas at $1 98, "value $3"; and handkerchiefs, "regular 50-cent quality," at 3 for $1. Can you explain these statements in terms of market price and normal price?

3. Under what circumstances might a flower-vendor at a street-corner sell flowers for less than normal price? Under what circumstances might he sell for more than normal price?

4. Would a bad crop affect the market price of corn? Would it affect the normal price?

5. Would the following influences disturb (1) the market price, (2) the normal price, of the commodities respectively concerned:

(*a*) Late frosts in a fruit-growing region; (*b*) demand for mourning in a European capital following the death of the Sovereign; (*c*) a week of hot weather during an ice-famine; (*d*) destruction of local timber-supply by forest fires; (*e*) discovery of a method of making artificial diamonds, indistinguishable from the natural stones?

6. Why does the price of wheat in the United States generally fluctuate between certain rather definite limits? Why does it not rise to $10 a bushel? Why does it not fall to 10 cents a bushel? Why does it fluctuate at all?

7. Might farmers accept 3 cents a quart for strawberries sometimes? Do you think they could accept as little as this for every quart they sold and still remain in the business?

8. Could normal price be determined in the case of a commodity in the production of which much machinery is used; especially if improvements of the machinery are being rapidly and continually invented and applied in new plants or in the newer machines of established plants?

4. The Marginal Utility Explanation of Value

In recent years the doctrine of marginal utility has been much used as an explanation of value. It has been severely criticized, but an exposition of the doctrine is justified by (*a*) the point of view it contributes; (*b*) the fact that the student in his reading is certain to meet with the terminology of this doctrine.

Marginal (or final) utility is the utility of the last or least important increment of supply. The term final utility is suggested by the diminishing utility of successive units of a good.

The principle formulated by the "marginal utility theorists" may be put as follows:

The market price of a commodity is determined by the valuation of the marginal purchasers, i.e., those who would refuse to purchase if any increase in price took place. To these purchasers the marginal utility of the commodity is just equal to that of the money required to purchase it. Thus it is frequently said that market price is determined by marginal utility.

If the conditions of supply were to change, another set of purchasers would be placed in the marginal position, and would determine price by their valuations.

It is obvious that the above statement of the marginal utility explanation of value is in complete accord with the demand and supply theory. That theory does not deny that those purchasers who are ready to drop out when prices rise are in a position to exert a direct influence upon price. The demand and supply theory lays

emphasis upon the entire volume of demand; it takes for granted variability of part of the demand. The marginal utility theory lays emphasis upon the variable part of the demand; the existence of a large unvarying demand is taken for granted.

QUESTIONS

1. Is marginal utility the utility of the last unit supplied? If all the units of a good were simultaneously supplied how should you define marginal utility?

2. According to the marginal utility theory of value how can you explain (*a*) the high price of diamonds? (*b*) the low price of drinking water?

3. Does the marginal utility theory make allowance for (*a*) cost of production? (*b*) normal value?

4. "The marginal utility theorists ignore supply and attempt to explain value in terms of demand alone." Comment. Is marginal utility independent of supply?

5. Define: marginal buyer, marginal seller, marginal producer, marginal cost.

6. When two men bargain to fix the price of an article do you imagine they are conscious of estimating marginal utility?

7. If you were deciding whether to spend three dollars for a dinner or to use the same money for a cheaper dinner and some new neckties, would your choice be determined by considerations of marginal utility?

5. ANALYSIS OF DEMAND

a) *Meaning of Demand*

b) *Determinants of Demand*

c) *Certain Characteristics and Special Forms of Demand*

In sec. 2 above it was seen that the forces which determine values and prices work themselves out through demand and supply. The further investigation of demand, and of the forces which go to make it up, was temporarily deferred. This investigation will now be resumed.

a) *Meaning of Demand*

QUESTIONS

1. Can one speak of the amount demanded independent of value or price?

2. Does mere desire for a commodity constitute demand?

3. Does the penniless, hungry tramp "exercise demand" for bread in the bakery?

4. Does fictitious demand ever influence values? What are "wash sales"? Why do they take place?

b) Determinants of Demand

i. Desire
ii. Effectiveness of Desire—Purchasing Ability
iii. Persons Affected

i. *Desire*

(1) Individual Determinants of Desire
(2) Social Determinants of Desire

First of all, if a good is to be demanded it must have utility. Men desire it because it will contribute to the satisfaction of wants. We must therefore in this connection revert for a moment to the subject of the nature of wants. The student should review the questions on "The Characteristics of Wants."

(1) *Individual Determinants of Desire*

QUESTIONS

1. Does the intensity of one's desire for a unit of a certain commodity depend upon the number of units one already has? How?

2. A desires a tennis racquet. So does B. Assuming that neither has a racquet at present, does it follow that A's desire and B's desire are equally intense? Is there any way of telling which desires the racquet more urgently?

3. A and B also desire tennis balls. Assuming that for three tennis balls the desire of A and the desire of B would be equal, does it follow that A would feel the same desire for six, or for a dozen, that B would?

4. A benevolent person gives a jack-knife to each of several small boys. The jack-knives are alike, but apparently some of the boys are much more pleased by the gift than others. Reasoning from your answers to Questions 1, 2, and 3, what explanations could you suggest?

5. If a wealthy woman were offered the choice between a diamond and an ordinary loaf of bread, which would she choose? Why? Are diamonds more necessary than bread? Is it not likely that the woman in question actually possesses more diamonds than loaves of bread at the moment?

6. It has been stated that the desire which influences value is not the desire for a commodity, such as bread, in general, but the desire for some particular unit of the commodity. Explain the significance of this distinction.

7. Is it the real or the supposed qualities of a good which influence demand?

8. How does advertising affect demand? Does it create new desires, or cause a desire for one brand of goods rather than another?

(2) *Social Determinants of Desire*

The influence of social organization on methods of production has been pointed out. Social usage exercises an equally fundamental influence on the tastes and habits of consumers, and therefore on the desire for goods.

QUESTIONS

1. Do goods tend to be less valuable when out of style? Why?

2. What distinction do you make between necessities and luxuries?

3. Is good food a necessity? Is a dress suit a necessity? Does a man ever try to live on less or worse food than considerations of health would suggest, in order to buy a dress suit? Why?

4. Goods which are required by social custom rather than by the necessities of physical existence are called *conventional necessities*. Give examples of conventional necessities.

5. What is the difference between luxuries and conventional necessities? Can you give examples of luxuries which have become conventional necessities?

6. Will people buy the same things regardless of the neighborhood in which they live or the social circle in which they move?

7. Food and clothing as such are usually reckoned as necessities. Are the actual forms of food we eat and the styles of clothes we wear necessities? Can you mention any article of dress which is without trace of luxury or convention? Try to distinguish necessities from luxuries and conventional necessities in a *table d'hôte*.

ii. *Effectiveness of Desire—Purchasing Ability*

Objective demand cannot be based upon desire alone. In an exchange process, purchasing ability or *effectiveness* must accompany the desire.

QUESTIONS

1. Does purchasing ability imply the possession of that which we call money?

2. What is meant by saying that a person can demand only when he supplies?

3. Can a man be a consumer and yet not be a producer?

4. Is a general over-production possible?

5. "The destruction of wealth has one compensation in that it increases demand for goods." Comment.

6. "Demand in general would be increased if employers would raise wages." Would this increase the total output of products? Would it increase total demand? Would it cause a different distribution of demand?

7. A rich man, for recreation, cultivates a vegetable garden and supplies his own household with vegetables. Is he likely, on this account, to make fewer purchases (*a*) of the local vegetable dealer? (*b*) of tradesmen in general?

8. The daughter of a well-to-do family, desirous of having an occupation and an independent source of support, goes into the business of artistic bookbinding. Does this work hardship for poor bookbinders who need money? Does it injure working people in general?

9. It is argued that if articles produced by convict labor are put on the market, honest men will be deprived of work. Comment.

10. Does total demand equal total money? If all money were wiped out of existence would demand disappear?

11. Can an individual buy more than he sells in the long run?

12. The irrigation projects of the federal government are opening up for settlement large tracts of land that were formerly desert. Will the settlement of these tracts increase the demand for products of other parts of the country? How should you proceed to determine the extent of this increase, if any?

13. "Demand for a good is made up partly of the supply of other goods." Why or why not?

14. It seems to be clear that the effectiveness of a man's desire depends (at least in part) upon his ability to offer something in exchange. Will it also depend upon his willingness to offer this something? If so, upon what will this willingness depend?

15. Does advertising increase the aggregate demand for goods in general or does it merely cause a redistribution of demand?

16. Is desire or purchasing ability the more fundamental factor in demand?

iii. *Persons Affected*

The relation between the number of persons affected and the total demand is really a matter of the extent of the market and is so obvious as to require no extended treatment. As regards the different types of individuals represented, and the corresponding variety of wants and purchasing abilities involved, the problem is more complex, and can here be only briefly touched upon.

Questions

1. Construct a demand curve showing the demand of a typical family for cream.

2. How would the form of the curve be changed if the demand of 10,000 such families were taken in the aggregate and the curve were drawn to the same scale as before?

3. Draw up three different schedules of individual demand for candles. Plot a curve representing the aggregate demand of the three schedules. Interpret the result.

Note.—A schedule or curve of aggregate demand represents the total demand at different prices for a given commodity in a given community or market. If the figures showing aggregate demand in the schedule are divided by the number of individual schedules fused together; or if the horizontal scale of the curve (representing quantity demanded) is reduced in corresponding proportion, the result will in either case be a sort of average individual demand schedule from which the idiosyncrasies of the actual individual schedules are eliminated. But such an average does not represent any real instance of demand, and cannot properly be used to exemplify diminishing utility or elasticity of demand (see below), independent of other factors.

c) Certain Characteristics and Special Forms of Demand

i. Elasticity of Demand
ii. Alternative Demand: The Principle of Substitution
iii. Derived Demand
iv. Composite Demand
v. Joint Demand

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i. *Elasticity of Demand*

Demand may be elastic or inelastic, i.e., the amount demanded may change readily or slowly with change of price.

Questions

1. Does the principle of diminishing utility manifest itself more markedly in the case of some goods than in the case of others? Give specific instances.

2. Is elasticity of demand associated with gradual or with abrupt diminution of utility as the amount of the good consumed is increased?

3. Is the demand for the following elastic or inelastic: diamonds, salt, tobacco, beef, shoes, manual labor?

4. If hearses were to fall in price would there be an increase in the number demanded?

5. Is the demand for water elastic or inelastic when the water is desired for (*a*) drinking? (*b*) cooking? (*c*) washing? (*d*) watering the lawn? (*e*) running a water-motor?

6. May the demand for a given commodity be elastic at one price-level and inelastic at another? Illustrate.

7. Draw up schedules illustrating elastic and inelastic demand. Plot them.

8. Is demand elastic in the case of a commodity which is so cheap that the users are near the point of satiety?

9. Name some familiar commodity the elasticity of the demand for which varies markedly according as the purchaser is wealthy, poor, or of moderate means. Illustrate this phenomenon by constructing three demand curves, representing the character of the demand of the wealthy, the poor, and the moderately well-to-do, respectively.

10. Does advertising affect elasticity of demand?

11. Draw up a series of general statements or propositions defining the circumstances under which demand will be elastic.

12. Suppose a sudden doubling of the amount of all kinds of goods (by a miracle, if you choose). Would values be affected?

ii. *Alternative Demand: The Principle of Substitution*

Questions

1. Name some want that can be supplied almost equally well by two different commodities.

2. Does the availability of a satisfactory substitute ever affect the desire for a good? Give examples.

3. Is any one article of food a necessity of life so long as other kinds of food may be had?

4. How does this principle affect (*a*) the utility of the first unit of any given good? (*b*) the diminishing utility of successive units?

5. Does elasticity of demand depend upon the ease with which one commodity may be substituted for another?

6. Would the high price of meat affect the consumption of other kinds of food? If the tariff on woolens were removed, would other kinds of clothing lose their present market? If barley should rise in price would more corn be used than formerly?

7. If a field is well suited to wheat-growing, and only passably good for oats, are there conditions under which it will be devoted to oats?

8. Is there any substitute for physical labor? for mental labor?

9. If labor in China rose to $1.50 a day the demand for capital would be likely to increase. Why?

10. Work out the effects, in the way of substitution, of the exhaustion of our anthracite coal deposits.

iii. *Derived Demand*

Very commonly the demand for a commodity is a derived demand. Producers' goods afford examples. Our demand for them is really derived from our demand for their products. Some persons call this a case of derived value. Demand and supply still determine value; but the demand in this case is of the kind indicated.

QUESTIONS

1. Mention several concrete instances of derived demand.
2. Is demand a derived demand in the cases of plows, threshing machines, wheat, flour, bread?
3. Is the demand for labor a derived demand? Would the same be true of the demand for land and for capital?
4. Would you pay more for a bushel of wheat than for the products which can be made from it? Why?
5. Could you say that the demand for property which yields an income is derived from the demand for the income? Does this suggestion throw light on the valuation of investments?
6. A certain bond pays 5 per cent interest on its par value of $1,000. If the prevailing rate of interest on similar security is 4 per cent, how much would an investor pay for the bond, assuming that it will continue to pay interest indefinitely? If the bond were due to mature in ten years would it sell for less or more? Why?
7. How could you determine the price you should ask for a piece of agricultural land which you own?

iv. *Composite Demand*

Demand takes at times the form of composite demand; i.e., one thing is wanted for many purposes. Thus corn is wanted for bread, for stock feeding, for starch manufacture, for glucose, and for the distilling of alcohol.

QUESTIONS

1. Give six other examples of composite demand.
2. Could a commodity be subject to an elastic demand for one purpose or want, and to an inelastic demand for another purpose—all at the same price?
3. Is demand a composite demand in the case of (*a*) machinery in general? (*b*) printing-presses? (*c*) labor in general? (*d*) services of coachmen? (*e*) land in general? (*f*) Wall Street lots? (*g*) materials in general? (*h*) bricks? (*i*) cotton?

4. What significance, in this connection, attaches to the distinction between (*a*) specialized and free capital? (*b*) skilled and unskilled labor? (*c*) improved and unimproved land?

v. *Joint Demand*

Joint demand exists in case the demand for one good involves in practice a demand for another also.

QUESTIONS

1. What commodities are demanded jointly with (*a*) cement? (*b*) nails? (*c*) cameras? (*d*) flour?
2. Give six other examples of joint demand.
3. How would cheapening of automobiles affect the demand for gasoline?
4. Is demand a joint demand in the case of (*a*) machinery? (*b*) raw material? (*c*) land? (*d*) labor?
5. Are many cases of joint demand also cases of derived demand?
6. Should you expect to pay as much for a barrel of flour as for the bread which can be made from it? Why?

6. ANALYSIS OF SUPPLY

a) *Meaning of Supply*
b) *Determinants of Supply*
c) *Certain Special Forms or Manifestations of Supply*

The following analysis of supply is supplementary to the brief treatment of demand and supply in sec. 2, above, and parallel to the extended investigation of demand in sec. 4.

a) *Meaning of Supply*

QUESTIONS

1. Can one speak of the amount supplied independent of value or price?
2. Does the mere existence of a commodity constitute supply?
3. Does "supply" mean actual supply, or potential supply, or both?
4. Does the supply of a commodity ever exceed the amount actually in existence? Consider the case of sales of cotton or grain for future delivery.

b) *Determinants of Supply*

i. Cost of Production, Simplified Treatment
ii. Indeterminate Cost of Production
iii. Physical Limitation of Supply
iv. Monopolistic Limitation of Supply
v. Social Determinants of Supply

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i. *Cost of Production, Simplified Treatment*

(1) Uniform Cost per Unit of Product: "Constant Cost"
(2) Different Costs for Different Units of Product

The term "cost of production" is used by different writers in different senses. It may mean either (*a*) the effort and sacrifice involved in production, or (*b*) the money outlay for wages, interest, materials, taxes, etc.—i.e., the expenses of production, ordinarily paid by the entrepreneur. Each usage has its advantages; but the second will ordinarily be followed in this book, on the ground that expenses afford a more tangible and more familiar measure of cost than does sacrifice.

Throughout the discussion of cost of production, competitive conditions are assumed.

(1) *Uniform Cost per Unit of Product: "Constant Cost"*

QUESTIONS

1. Is a manufacturer likely as a regular policy to sell his goods for less than cost? Under competitive conditions is he likely regularly to sell for more than cost, reckoning as part of the cost a minimum of return to the manufacturer himself, without which he would not remain in the business?

2. In the following schedules what will the price be, assuming cost of production to be the only determinant of supply?

Units	Cost of Production per Unit	Demand Schedule A	Demand of Schedule B
100	$1	100 at $4 each	150 at $3 each
200	1	200 at 3 "	175 at 2.50 "
300	1	300 at 2 "	200 at 2 "
400	1	400 at 1 "	300 at 1.50 "
500	1	500 at 75c. "	500 at 1 "
600	1	600 at 50c. "	700 at 75c. "
700	1	700 at 40c. "	1,000 at 60c. "

3. Assume cost of production to be the sole determinant of supply. Construct a supply curve to represent the case of goods increasable at constant cost, and show that whatever demand-curve be drawn to intersect it the market price indicated by the intersection will be the same.

4. "No matter what the market fluctuations may be, in the long run cost of production will be the significant thing to watch in the case of these commodities." Why or why not?

5. Do concerns ever sell below cost of production? If so, why? Could they continue to do so?

6. Does cost of production influence market price? Does it influence normal price?

7. What does "cost of production" mean when applied to the case of a commodity on which practically all the work of design and execution has been done by one person?

(2) *Different Costs for Different Units of Product*

(*a*) "Increasing Cost"
(*b*) "Diminishing Cost"

The production of some commodities is subject to conditions of increasing cost—i.e., a larger supply is more than proportionally costlier than a smaller supply. Other commodities can be produced more cheaply in large quantities than in small. It is to these facts that the terms "increasing cost" and "diminishing cost" apply. They do not refer to gradual changes brought about by progress in industrial technique, or by slow exhaustion of the soil.

QUESTIONS

1. Assume cost of production to be the sole determinant of supply. "The marginal-cost theory is absurd. Suppose wheat is selling for 70 cents a bushel. A farmer who produces at an average cost of 50 cents will net 20 cents per bushel and will therefore be under strong incentive to increase his crop, even though its marginal cost is 70 cents. Thus, average cost and not marginal cost is the significant thing." Why or why not?

2. "No matter what the market fluctuations may be, in the long run cost of production under the worst circumstances, or marginal cost, will be the significant thing to watch in the case of these commodities." Why or why not?

3. Assume cost of production to be the sole determinant of supply. What will the price be in the following case?

Supply Schedule			Demand Schedule	
Number Supplied	Total Cost	Additional Cost due to Additional Unit	Price per Unit	Number Demanded
7	$231	$36	$36	15
8	268	37	37	14
9	306	38	38	13
10	345	39	39	12
11	385	40	40	11
12	426	41	41	10

4. Assume cost of production to be the sole determinant of supply. Draw a curve of increasing cost. Draw a demand curve on the same diagram. Double your demand. What is the effect upon price?

5. Is "increasing cost" the same phenomenon as diminishing returns?

6. "In the case of goods produced under conditions of diminishing cost, value will tend toward the lowest cost, in so far as this lowest cost can be realized in the making of all of the product demanded. In so far, however, as it is necessary at any time to depend for part of the supply on production at a higher cost, the case resembles the case of increasing cost, and values tend to adjust themselves to the marginal cost, or cost of production under the worst circumstances." Assuming cost of production to be the sole determinant of supply, is this statement correct? Explain.

7. Draw a curve representing diminishing cost. Regarding this as a supply curve, draw a demand curve intersecting it. Draw another curve representing doubled demand. How does doubling the demand affect the price?

8. Draw a figure to show that when supply is governed by conditions of diminishing cost the supply and demand curves may intersect in two or more points. Which intersection will represent normal value? Show how elasticity of demand affects this problem.

9. The decrease of costs in manufacture as a result of the superior efficiency of large-scale production has often been called "increasing returns." Is this a correct use of the term? Give a clear instance of increasing returns in manufacture.

ii. *Indeterminate Cost of Production*

(1) Direct Cost and Indirect Cost
(2) Joint Cost
(3) Effects of Progress in Methods of Production
(4) Appreciation and Depreciation

Under the complex conditions of modern industry the determination of costs is an extremely obscure and difficult problem. The following questions suggest some of the difficulties involved.

(1) *Direct Cost and Indirect Cost*

QUESTIONS

1. Explain what is meant by direct cost and indirect cost, using illustrations taken from the railway industry.

2. Explain the terms prime cost, supplementary cost, fixed charges, overhead charges.

3. Would it be good policy to continue operating a cotton-mill if the earnings were insufficient to pay (*a*) dividends? (*b*) regular interest on borrowed capital? (*c*) cost of materials? (*d*) wages?

4. If employers paid wages at a fixed rate per hour, regardless of the time worked, would it be just as profitable to run a factory 6 hours a day as to run it 10 hours? Why?

5. Why are night shifts of workmen employed in many factories?

6. A newspaper with a circulation of 90,000 is printed on a press designed to handle an edition of 100,000 copies. How would the cost per copy be affected by increasing the edition to (*a*) 95,000? (*b*) 150,000?

7. Try to point out important economic problems of the day that are in large measure due to the way in which heavy fixed charges affect the character of competitive industry.

(2) *Joint Cost*

QUESTIONS

1. A family employs a coachman who works at odd moments in the vegetable garden. Assuming that the coachman would be employed in any event, how should you estimate the cost of raising the vegetables?

2. Suppose you were a farmer, engaged in ordinary general farming. Could you tell how much it cost (*a*) to fatten a hog for market? (*b*) to raise a heifer? (*c*) to cultivate pumpkins between the rows of corn?

3. Is there a fairly well established market price for hogs, or heifers, or pumpkins? Is there a normal price? If so, how can it have been fixed?

4. Can you determine the actual cost of butter or wool?

(3) *Effects of Progress in Methods of Production*

QUESTIONS

1. "Every time a new type of machine is installed in a factory the cost of producing the product manufactured there is in some degree reduced." Comment on this assertion.

2. Should you accept as true the statement that on the whole the cost of production of manufactured articles is gradually but steadily falling? If so, can you explain why?

3. It is sometimes said that not cost of production, but what it would cost to *reproduce* a commodity, is the real cost-factor in supply. What is the meaning of this distinction? Is the point well taken?

4. In a factory the old machinery, as it wears out, is gradually replaced by machinery of the latest improved pattern. Consequently, some of the machinery at any one time in use is superior to the rest of the equipment. Under such conditions, how is cost of production reckoned?

5. At a given time the supply of cotton cloth is derived from (*a*) new and up-to-date plants; (*b*) obsolete plants; (*c*) progressive plants, with some old machinery and some new machinery. All these plants are working to their full capacity. Which cost of production will be significant in determining the price of the cloth?

6. Should you expect the price of an article to correspond to the cost of production of that part of the supply which has cost most to produce, or to the cost of production of some less costly part,

   a) when reduced cost results purely from enlarging the output of established plants without changes of method or equipment?

   b) when reduced cost results from construction and utilization of larger plants?

   c) when reduced cost is the consequence of successive improvements of machinery and methods, available in small plants as well as large?

(4) *Appreciation and Depreciation*

QUESTIONS

1. A fruit grower, after laborious precautions against insects, black-knot, etc., markets a scanty crop of plums from young trees which have not begun to bear their full yield. How can he separate the cost of this crop from the cost of subsequent crops?

2. A landowner clears a tract of land which he then sells at an advanced price. He also sells firewood from the trees removed in

the process of clearing. How much of the cost of clearing is to be reckoned as the cost of production of the firewood?

3. What factors must be considered in determining the cost of production of (*a*) timber? (*b*) iron ore? (*c*) petroleum?

4. Assuming that a manufacturer who invests in machinery plans to get back, out of the earnings of the machine during its time of service, the original outlay, with interest, how is he to know what proportion of this is to be charged as cost of production against each unit of product?

5. Discuss the bearing of each of the following influences on the depreciation-factor in cost of production: (*a*) change of fashion; (*b*) invention of new processes; (*c*) durability of machinery.

iii. *Physical Limitation of Supply*

Under this head will be considered not only goods of which the quantity cannot under any circumstances be increased, but also goods of which the quantity in existence is locally or temporarily limited.

QUESTIONS

1. Suppose that as regards a certain kind of rare coin, A would buy one at $100; B, one at $90; C and D, one each at $80; E, F, and G, one each at $60. If, now, seven are to be disposed of in a competitive market, what will the price be? Does cost of production affect the situation?

2. In the case of old spinning wheels what would normal price mean? Would cost of production have a definite relation to price in such a case?

3. What determines the price of a unique original work of ancient art, or of a first-edition Shakespeare? Should you agree to the proposition that in such cases supply is insignificant and price depends on demand alone?

4. If it takes a year to build a steel mill, will this have a bearing upon the value of steel mills in case of a sudden increase in the demand for steel? Why?

5. How is it possible to corner the market in wheat? Cannot the supply of wheat be increased?

iv. *Monopolistic Limitation of Supply*

QUESTIONS

1. Can a monopolist control the demand for his monopolized commodity? Can he control supply? Can he control price? Explain.

2. Suppose a monopolist could know in advance the demand schedule and the cost schedule of his commodity. Where would he fix the price in the following case?

Demand Schedule		Cost Schedule		Profit—?
10 at	$1,000	10 at	$500	
20	800	20	460	
30	700	30	450	
40	600	40	430	
60	500	60	425	
80	450	80	420	
100	400	100	415	

3. From the evidence of this illustration work out a general principle to explain monopoly price.

4. Formulate a general statement of the relation of monopoly price to elasticity or inelasticity of demand.

5. How would the general principle of monopoly price (Question 3) be modified in the case of a commodity for which there is an available substitute not controlled by monopoly?

6. How great is the power of a monopolist who deals in the necessities of life? in the luxuries of life?

7. How great is the power of a monopolist who has control of natural resources?

8. "In the case of a monopolized good cost of production does not affect price." Comment.

9. A piano manufacturer buys out all his competitors. Can he now sell the former aggregate output at an advanced price? Why?

10. How effectual in restraining monopoly do you think potential competition is?

11. Professor Taylor says: "The normal price of goods produced by a capitalistic monopoly tends to approximate the cost of production to outsiders, usually remaining, however, somewhat above such cost." Comment.

12. Suppose that of the price charged by a monopolist for his product 5 per cent is profit. He now raises the price 5 per cent. By what percentage will this increase his profit, assuming sales to remain the same? How much are sales likely to fall off in practice?

v. *Social Determinants of Supply*

(1) Formal Social Control
(2) Informal Social Control

QUESTIONS

1. Illustrate by examples various forms of legislation which increase or diminish the supply of commodities.

2. Mention commodities the sale of which is supervised by (*a*) the police; (*b*) the public health authorities; (*c*) the postal authorities.

3. Does the pure food law tend to affect the supply of certain foods? Why or why not?

4. Explain prices of theater tickets, football tickets, physicians' fees.

5. Do men ever abstain from supplying a certain good because to supply it would cause them to lose the esteem of their fellows?

6. Does a prohibition law which is to some extent evaded affect the price at which liquor is sold in the prohibition territory?

7. Can you cite cases where (*a*) custom, (*b*) habit, (*c*) ignorance affects the supply of goods?

8. Which of the above questions deal with formal social control? Which with informal control?

c) Certain Special Forms or Manifestations of Supply

i. Perishable Goods
ii. Joint Supply and By-Products
iii. Composite Supply

i. *Perishable Goods*

QUESTIONS

1. Under competitive conditions the sellers of goods will ordinarily choose a favorable time to sell, and will hold back their goods if the market is temporarily depressed. Is the same course open to sellers of strawberries? Why? What is the effect on the price of strawberries?

2. Mention several commodities the perishable nature of which notably affects the supply.

3. Does perishability account for the low prices which prevail at (*a*) Saturday night sales of fish, vegetables, flowers? (*b*) "mid-season" sales of wearing apparel? (*c*) bargain sales of calendars in February? (*d*) "fire sales"?

4. Has cold-storage altered conditions of supply of perishable goods? Has it made them cheaper or dearer?

5. Has cost of production any part whatever in determining the price of strawberries?

6. Would the principle that competitive prices conform closely to cost of production apply to perishable goods?

7. Should you count dealers' losses by the spoiling of goods as a part of normal cost of production?

8. It has been said that labor is a perishable commodity. What is meant by this statement?

ii. *Joint Supply and By-Products*

Problems involving more or less of the principle of joint supply have already been introduced in treating of railway rates and in discussing Indeterminate Cost of Production. Under the latter head in particular are problems which closely parallel the problems of this section. The emphasis, however, was there laid upon cost. Here the topic of cost is only incidentally introduced, and attention is directed to the fact that supplying the market with one commodity often involves in practice the supplying of other, related goods.

QUESTIONS

1. Why is it possible to buy a beef-tongue without having to pay for a whole ox?
2. Mention as many as possible of the salable products which result from the killing of an ox by (*a*) a country butcher; (*b*) one of the great packing-houses.
3. What other articles are supplied jointly with mutton, flour, cotton, kerosene, lumber, butter?
4. If the price of hides falls, does it follow that men will restrict the production of them?
5. Would a sudden and large increase in the demand for beef affect the supply of hides? of shoes? of harness?
6. Give examples of important commodities which, as by-products, are sold in much larger quantities and at a much lower price than would be possible if they were made and sold as separate, independent products.
7. Is there a normal price for a by-product?
8. Does the principle of joint supply govern the case of goods produced by the general farmer?
9. Do you think the principle is one of wide application? Does it render easier or more complicated the study of value?

iii. *Composite Supply*

QUESTIONS

1. Mention different sources of the supply of (*a*) soap; (*b*) glue; (*c*) paper.
2. Give other examples of commodities of which the supply is derived from different materials or by different processes.
3. Do anthracite coal, bituminous coal, and coke afford an example of composite supply? If coke were produced more cheaply and in larger quantities would the supply of bituminous coal be affected? How?

7. General Questions on Value

1. What is the value of an undetected counterfeit $10 bill?

2. Can you think of anything which has value and yet is not scarce? Can you think of anything which is scarce and yet has no value?

3. What is the relation of utility to value?

4. Explain the prices fixed at an auction sale (*a*) in terms of demand and supply, (*b*) in terms of marginal utility.

5. "Value is determined by demand and supply"; "value is determined by cost of production"; "value is determined by marginal cost"; "value is determined by cost of reproduction"; "value is determined by marginal utility." Can these propositions be reconciled?

6. Does increase of demand lead to increase of supply? How? Does increase of supply lead to increase of demand?

7. Can we have an elastic supply? an inelastic supply? If so, what are the determining factors?

8. Tell whether the demand for the following is a derived, joint, composite, elastic, or inelastic demand: capital; labor; land; shoes; wheat; flour; bread; leather; hides; steak; butter; books; pencils; wine; playing cards; houses.

9. Tell of the above whether the supply is joint, composite, elastic, or inelastic.

10. Does a person ever pay a high price for a thing because he fears that if he waits for lower prices the supply will all be sold? Does this disprove the assumptions of the demand schedule?

11. What is meant by the statement that "demand exceeds supply"? Under such circumstances can a price be fixed? Can exchange take place?

12. What do we mean by saying that a good is not produced because the cost of production is too high?

13. What is the relation of cost of production to value?

14. "Hot-house grapes sell for $1 a pound. By constructing large hot-houses and utilizing the advantages of large-scale production ten million pounds could annually be produced at a cost of 60 cents a pound, thus returning $4,000,000 above all expenses." Is anything wrong with this argument?

15. Even when Raphael was alive did the value of his pictures depend upon the cost of production? Did he possess any natural monopoly?

16. Can the price of a commodity long remain above the cost of producing that commodity in an average factory? Can it remain above the cost to the largest manufacturers?

17. The cost of raising wheat on the best new lands of Canada

is said to be far below the average cost of wheat in the United States. Under these circumstances can the United States continue to sell wheat in the competitive markets of the world?

18. Does not value depend upon the amount of labor expended? Is all labor alike? If it were, would a great expenditure of labor cause a machine for blowing soap bubbles to have a high value?

19. If all wages were doubled, what would be the effect upon values?

20. Suppose commodities x and y are made out of the same raw material and require in their manufacture equal amounts of the same kind of labor. Will they have the same price?

21. How is the general statement that (normal) value approximates cost of production affected by (*a*) much fixed capital in the industry? (*b*) speculative character of the industry? (*c*) the growth of combination or monopoly?

22. Does cost of production determine the price of land in Oklahoma when first opened for settlement? What does determine it?

23. x and y are used in making z. How would a reduction in the value of x affect the value of y and z? How would the discovery of a cheap substitute for z affect the value of x and y?

24. If there were a combination among all the buyers of a certain raw product what would determine the price of that product?

25. A trust will sometimes sell its goods below cost in a certain locality where there is competition and make up the loss by the high price obtained elsewhere. What principle should you say determined such prices?

26. A certain machine cost $2,000. It could now be duplicated for $1,500; but a newly invented and patented machine, which turns out 50 per cent more product in the same time with the same expense for power, attendance, etc., can be made for $1,000. Assuming that the original machine is as good as new, explain carefully what its value is likely to be.

27. A publisher has printed 5,000 copies of a novel which proves a failure. What will determine the value of a copy (*a*) assuming that the whole edition has been bought by booksellers? (*b*) assuming that most of the books are still on the publisher's hands?

28. Look at the commodities advertised for sale in the daily newspaper. Do the economic principles of value which have been outlined in the preceding pages really explain the way in which their prices are fixed? If not, why not?

29. Do these principles of value correctly explain the price of a newspaper, a second-hand typewriter, a glass of soda water, a street-car fare, a new novel, a ticket to the circus, a suit of clothes, a railroad excursion ticket, hats at a fire sale, a ticket to an all-star opera performance, shoes at a bargain sale, a race horse? If not, why not?

30. What is the relation of custom and habit to value?

31. Look at the daily report on the wheat market in the newspaper. Can you see the law of demand and supply working there?

32. Do the government reports regarding the prospects for crops of wheat, cotton, etc., have any influence upon market prices? How? Why do merchants watch these reports more closely than reports or estimates of gold production?

33. Do local grain buyers fix the price of the grain they buy of the farmer?

34. Can it be said that the law of demand and supply fixes the price of wheat when there is a corner in the market? Does cost of production have anything to do with the price at that time?

III. The Mechanism of Exchange

1. *Money Exchange*
2. *Credit Exchange*

Thus far we have dealt with markets and the establishment of values and prices in the market. In doing so, we have constantly been *assuming* certain media or means of exchange. Since money and credit devices are so familiar it was safe thus to assume them. Our general knowledge enabled us to use them in our reasoning.

We must now consider in more detail this mechanism which we were assuming.

1. Money Exchange

a) The Nature and Functions of Money
b) The Characteristics of a Satisfactory Money Good
c) The Forms of Money
d) The Value of Money
e) Gresham's Law
f) The Kinds of Standard

Money serves as an aid in exchanging goods and provides a convenient means of expressing their relative values in terms of prices. Credit may and commonly does perform money-work, and credit, as well as money, enters into price relations. The concrete applications of credit are best studied under banking.

a) The Nature and Functions of Money

Questions

1. Could we have any exchange by using barter alone?
2. What is meant by the "double coincidence" of barter?

3. Could the exchange system be as complex as it is today if we depended upon barter alone? Would the productive process be as efficient?

4. Can you cite any cases of barter being used today?

5. What difficulties of a system of barter are overcome by the use of money?

6. What is money? Must money have value? Has gold coin value because it is money or is it money because it has value?

7. It has been said that the functions of money are to serve as (*a*) a medium of exchange; (*b*) a standard (common denominator) of value; (*c*) a standard for deferred payments. Explain why each of these functions is useful and cite cases where money performs each of these functions.

8. A buys 1,000 bushels of wheat from B at $1 a bushel. B accepts in payment a note for $1,000 payable with interest two years from date. Two years later A pays B the $1,000 with interest agreed. Which of the three money-functions does money perform in the course of these transactions?

9. If half the money in a country were suddenly to disappear, would the wealth of the country be diminished?

10. Would it be possible to have a standard of value which did not serve as a medium of exchange? a medium of exchange which did not serve as a standard of value? Can you find examples in the currency of this country?

b) *The Characteristics of a Satisfactory Money Good*

QUESTIONS

1. Name five commodities formerly used as money and explain why they were abandoned for that purpose.

2. Would the following make good money: iron, wheat, diamonds, glass beads, sea shells, beaver skins? If not, why not? Which of the three chief functions of money would each be inadequate to perform?

3. Are there any respects in which gold is superior as money to the above-mentioned commodities? If so, explain the superiority in each case.

4. Reasoning from your answers to the above questions, what should you conclude are the characteristics of a good money? Take up in turn the functions of money and state which of the characteristics of a satisfactory money-good apply to each function.

5. Are there any respects in which gold or silver fall short of these desired characteristics?

6. Is a low price level unfortunate provided it is stable? Is a

high price level absolutely high or high by comparison? If a high price level is wise, how high should it be? Why stop there?

7. If a change in the value of money affects all prices alike, is anybody injured thereby?

8. What classes are adversely affected by a rise in the value of the standard? a fall in the value of the standard?

9. It has been argued that a steadily depreciating standard tends to stimulate business. Why? Do you think such a standard would be desirable?

10. It has been said that uncertainty concerning the monetary standard in this country has caused unsettled business conditions. Is this a probable statement?

11. "It is crop-moving time. Since farmers do not use checks very much we should have more money for a while." What does this mean? Why more money "for a while"?

c) The Forms of Money

i. Standard Money
ii. Token and Subsidiary Currency
iii. Credit Money

QUESTIONS

1. What is standard money in the United States? What is the monetary unit? Is the unit actually current as coin, or is it a mere definition?

2. Why does not the government use pure gold and silver in its gold and silver coins?

3. What is seigniorage? brassage?

4. In the days of the California gold discoveries different individuals and firms coined their own gold pieces. Is there any reason for prohibiting such a practice and reserving the right of coinage to the government?

5. Why stamp a device on coins? Why mill the edges of coins?

6. Would it sometimes be more convenient to have an order for a bushel of wheat than to have the wheat itself? Answer the same question for a bag of 10,000 gold coins.

7. What is token money? What purposes does it serve? Is token money legal tender? Define legal tender.

8. Why are copper and nickel used for coins?

9. Do you think any denominations of coins other than the denominations now minted would be desirable in this country? Why?

10. Why do we have $1,000 bills in our currency system?

11. What are subsidiary coins? Is there a distinction between subsidiary coins and token coins?

12. Why is it necessary to put so much silver into the silver subsidiary coins?

13. The United States government keeps a gold reserve of 150 millions against 346 millions of greenbacks. How does it dare to keep less than 100 per cent reserve?

14. A bank often has outstanding current obligations to the extent of four or more times its cash on hand. How does it dare to do this?

15. What is meant by likening credit money to a road through the air that permits society to use for other purposes the ground formerly used for the road?

16. Copy from each of the kinds of paper money in use in the United States today the significant statements printed thereon.

d) The Value of Money

i. The Value of Standard Money
ii. The Value of Other Forms of Money

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i. *The Value of Standard Money*

The value of standard money, so long as there is free and unlimited coinage, depends upon the value of the money-metal used in the coin. The value of the money-metal, like the value of other commodities, is determined by demand and supply.

Careful attention should be paid to the factors which affect the demand for the money-metal. The demand arises from two sources: (*a*) the demand for use in the arts, and (*b*) the demand for use as money. Obviously the latter demand is made less than it would otherwise be if various forms of credit are used to help perform the work done by standard money, or if the conditions are such that money circulates rapidly, so that a given piece does so much the more work.

The business man in speaking of "the value of money" usually has in mind the current rate of interest which can be obtained for money which is loaned. This should not be confused with the meaning of the term as it is used by the economist—i.e., the power of money in exchange. Since this is measured by the amount of every other commodity for which money will exchange, the value of money is indicated by the general level of prices.

QUESTIONS

1. Does the demand for shoes adequately account for the value of leather? Could you explain the value of gold as the result of the demand for money?

2. What is meant by the demand for money?

3. If Europe ceased to use gold for money would that action affect the value of American gold coins? If so, how and when?

4. If dentists discovered a cheap filling for teeth which was better than gold would it tend to alter (*a*) the demand for gold? (*b*) the value of the gold eagle?

5. Should you expect the increasing use of platinum in jewelry to change the value of gold?

6. Is gold durable? Is it ordinarily destroyed in the uses to which it is put? Suggest some of the ways in which gold is so used as not to be recovered for subsequent uses.

7. To what extent is the supply of gold derived from current production?

8. Does the value of gold correspond to marginal cost of production? How is the relation between the value and the cost of production of gold influenced by (*a*) the speculative character of gold mining? (*b*) the amount of fixed capital involved in the production of gold?

9. The introduction of the cyanide process for extraction of gold so decreased the cost of production that refuse heaps of old mines were worked over again. What effects should you expect this to have upon the use of gold in the arts? upon its use as money? What would be the effect upon its value in the arts? upon its value as money?

10. A certain amount of gold can be extracted from sea water, yet this extraction is not generally attempted. Why not? Are there any conditions under which this might be resorted to?

11. It is said that the demand for money consists of the supply of goods offered for sale, and that the supply of money constitutes the demand for these goods. Explain. Is the validity of this statement affected by the use of checks and other substitutes for money?

12. How would the value of money be affected by doubling the amount in circulation? To what extent would this result be modified by (*a*) the use of substitutes for money? (*b*) the fact that one piece of money may effect many or few or no exchanges in the course of a day, according to circumstances? Would the use of substitutes, or the rapidity of circulation, be affected by the scarcity of money?

13. What is the "quantity theory" of the value of money? According to that theory is the value of money independent of cost of production? Explain.

14. Can five ounces of gold set aside for use in the arts have a different value from the same amount of gold in a coin? If so, why? If not, why not? Answer the same questions with reference to silver.

15. Would a seigniorage tend to affect the value of money, and if so, how?

16. Is the value of the dollar fixed and stable?

ii. *The Value of Other Forms of Money*

QUESTIONS

1. What must be done to keep token, subsidiary, and credit money equal in value to the standard?

2. The value of gold falls. What is the probable effect upon (*a*) the value of the $5 gold piece? (*b*) the price of the $5 gold piece? (*c*) the value of wheat? (*d*) the price of wheat? (*e*) the value of the cent piece? (*f*) the value of the dime? (*g*) the value of an ounce of silver? (*h*) the value of the silver dollar?

3. What determines the value of the silver certificate? of the greenback? of the national bank note?

4. Is there any difference between the value of the bullion in a silver dollar and the value of a silver dollar? If so, how can you explain it?

5. During the Civil War the value of the greenback fluctuated continually. For example, after a union victory, the greenback rose in value. Why?

e) Gresham's Law

QUESTIONS

1. Suppose a man has borrowed a bushel of wheat of you. Let the government now pass a law stating that debtors may pay back borrowed wheat in grain of either good or poor quality. In what quality do you think you are likely to be paid?

2. If you were to get some gold bullion by melting coins, should you melt full-weight or light-weight coins? Suppose you were desiring to ship gold out in international payments: which kind of coin should you ship?

3. If in bullion form one ounce of gold equals in value 32 ounces of silver, and by a legal tender law it is provided that the coins made from 1 ounce of gold shall exchange for the coins made from 16 ounces of silver, should you take gold to the mint to be coined? Should you take silver to the mint?

4. Suppose the monetary system of a country is based on a gold standard. War is declared. The government concludes to issue paper money which it decrees shall be legal tender and which it promises to redeem after the war is over. Doubts arise whether it will ever be redeemed. If someone owed you, would he pay you in paper or in gold? Why? Should you have any option in the matter? Would gold remain in circulation?

5. State Gresham's Law, and give an illustration from the monetary history of the United States of a case where it operated.

6. Is there any reason why the amount of pure metal in a fractional coin should be less than a corresponding fraction of the amount in the standard coin?

f) *The Kinds of Standard*

i. The Single Standard (monometallism)
ii. The Double Standard (bimetallism)
iii. The Limping Standard
iv. The Tabular Standard and the Method of Index Numbers
v. The Paper Standard (fiat money)

Several kinds of monetary standard have been adopted, at one time or another, by different nations; and others have been suggested. In deciding which standard is best the main criterion is stability of value.

i. *The Single Standard* (monometallism)

QUESTIONS

1. Why is gold more stable in value than most commodities?
2. Will the recent adoption of the gold standard by a number of countries tend to make the value of gold more stable, for the time being? in the long run?
3. Has the production of gold been quite regular, or have there been great changes in the output? What is the situation at the present time?
4. Has the money of the United States ever been based on a single standard? If so, when?
5. Suppose a country has a gold standard. Will that mean that it may not have silver or copper coins? May it have credit money?

ii. *The Double Standard* (bimetallism)

QUESTIONS

1. What is meant by bimetallism? Have we ever had a bimetallic standard in the United States? If so, when?
2. What is meant by 16 to 1? Has that ratio ever been adopted in the United States, and if so, when? Has there ever been any other coinage ratio in this country?
3. On what ground can the bimetallist contend that bimetallism will give a more stable standard of deferred payments?
4. "So long as the government coins freely and gratuitously both

gold and silver at a fixed coinage-ratio of value, the market ratio between the value of gold and the value of silver will automatically conform to the coinage-ratio. If, for example, the value of silver on the market tends to fall, silver will be taken to the mint to be coined; and in consequence the tendency to a fall in the value of silver will be checked by the increased demand for silver for purposes of coinage; while at the same time the demand for gold for coining will fall off." Explain and criticize this argument.

5. Would bimetallism be more likely to succeed if the coinage-ratio chosen were near the existing market ratio? Why?

6. Would bimetallism be more likely to succeed in a country which used much metal in its currency? Why?

7. Precisely why would international bimetallism be stronger than national bimetallism?

8. "Bimetallism is absurd. It would result first in gold monometallism, then in silver monometallism, and so on." What does this mean?

9. Is Gresham's Law likely to come into operation under a bimetallic standard? If so, under what circumstances?

10. Is there anything in the nature of mining that keeps the ratio of the supply of gold to the supply of silver nearly uniform? What light does the history of the output of these metals during the nineteenth century throw on this point?

11. In the last free-silver campaign some favored a coinage ratio of 32 to 1 instead of 16 to 1. What was the reason for this? If you had had to decide between the two, which ratio should you have chosen?

12. If the United States were now to adopt bimetallism at the ratio of 16 to 1, what changes would take place in the circulating medium of the country?

13. If the United States had free coinage at 16 to 1 and the market ratio of gold and silver were 12 to 1, what would be the effect on the circulating medium of the country?

14. From 1792 to 1834 our coining ratio was 15 to 1 and the average market ratio was about 15.61 to 1. What metal tended to go to the mint?

15. From 1834 to 1860 our coining ratio was 16 to 1 and the average market ratio was about 15.63 to 1. What metal tended to go to the mint?

16. What was the "crime of 1873"? Why did the measure pass Congress with so little opposition at the time?

17. What was the specific demand of the free-silver party? When did the free-silver movement arise? Why did it come when it did instead of earlier—say about 1855?

18. What different classes or sections of the country wanted free silver? What did they expect to gain by it?

19. What legislation was passed as a result of the demands of the free silverites? What were the consequences of that legislation?

20. Is there more or less reason for the adoption of bimetallism by the United States now than there was about 1893?

21. Draw up a chronology of the monetary history of this country.

iii. *The Limping Standard*

This topic requires no discussion. The term is used to express the situation in those countries where both metals have unlimited legal tender power but where only one is coined unlimitedly. It marks a transition from the double to the single standard. France and the United States furnish examples of a limping standard.

iv. *The Tabular Standard and the Method of Index Numbers*

A change in the value of money and a change in the level of prices are but two ways of stating the same fact—the change in the exchange ratios between money and goods. The fact of the change implies nothing as to the cause of the change. The cause may be exclusively on the gold side, or exclusively on the side of the other goods, or it may be a cause which affects both sides.

The statistical method of *index numbers* is a device for studying changes of price-level, which, whatever their causes, are attended with serious practical consequences. An index number is the average of a series of price-ratios, or percentages, each of which represents the relation between the price of some particular commodity at the date under consideration, and the price of the same commodity at a previous date taken as a "base," to furnish a standard of comparison.

Questions

1. Construct an index number based on assumed prices for a dozen commodities at two different periods, showing the change in the value of money.

2. Why is "weighting" sometimes used in the construction of index numbers? Is the correction important?

3. In the nineties the gold party declared that the value of silver had fallen in the preceding twenty-five years; the silver party declared on the other hand that it was not a fall in silver which had taken place, but a rise in gold. How should you go about it to find out the truth of the matter?

4. Enumerate some of the influences which might tend to raise or lower the prices of a large number of commodities independently of any change on the part of the standard.

5. Explain how the method of index numbers might be used in defining a tabular standard of payments. Do you think such a standard would be more equitable than a gold standard in determining the amount of long-deferred payments?

6. Why do business men object to this idea of the tabular standard?

v. *The Paper Standard* (fiat money)

QUESTIONS

1. Is it hypothetically possible that a mere paper standard could be more stable in value than the gold standard? (This question assumes that people would be willing to accept a paper standard.)

2. What would fix the value of such paper money? Would it be determined by cost of production?

3. Is it true that if we used paper money instead of gold much social outlay would be saved?

4. Why not have a paper standard?

5. Why have some people desired it?

6. It is commonly said that from 1862 to 1879 the United States had a paper standard. Does this refer to the official or to the actual situation? Were people accepting the paper money because the government so ordered or because they expected this money to be redeemed in gold at some time?

2. CREDIT EXCHANGE

a) Credit and Credit Instruments

b) Credit Institutions (with particular reference to banking)

By far the greater part of the exchange transactions in such an industrial society as that of the United States is performed by credit devices. Some analysis of these devices and the way in which they operate is therefore necessary.

a) Credit and Credit Instruments

QUESTIONS

1. Define credit.

2. What is meant by book credits? checks? promissory notes? drafts? bills of exchange?

3. Show how each of these credit devices may perform money functions.

4. Is credit capital? Does it really add to the sum total of instruments, or does it merely make possible a better utilization of instruments already existing?

5. Could credit exist unless a surplus of economic goods over and above immediate needs had previously been accumulated?

6. "Credit quickens the productive process." Do you agree? If so, in what way does it do so?

b) *Credit Institutions* (with particular reference to banking)

i. Principles of Banking
ii. Clearing-House Operations
iii. Comparison of Banking Systems
iv. Foreign Exchange (treated under "International Trade")

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i. *Principles of Banking*

QUESTIONS

1. State carefully what is meant by (*a*) discount, (*b*) deposit, (*c*) issue.

2. What forms of so-called banking can you enumerate? Which of these forms of banking do you regard as banking in the strict and typical sense?

3. Which of the three fundamental banking functions mentioned in Question 1 are performed by (*a*) savings banks, (*b*) trust companies, (*c*) "bankers," in the sense of dealers in foreign exchange?

4. On what sorts of security do banks ordinarily make loans?

5. What are the most desirable forms of investment for a bank?

6. How can a bank fail when its assets are greater than its current liabilities?

7. "One of the main functions of a bank is to place capital with those who can use it best. This aids society as well as the individual." Explain.

8. In what ways may a deposit account be created?

9. What are the relative advantages and disadvantages of checks and banknotes as regards (*a*) convenience, (*b*) safety?

10. Why should any more care be taken by the government to protect banknotes than to protect deposits?

11. "An effective redemption scheme is all that is needed to secure either notes or deposits." Do you agree?

12. "A bank should be free to give the community it serves the kind of service desired. If deposit currency is desired, let the bank have freedom in giving that service. Let the same be true of circula-

tion." What is meant by deposit currency? by circulation? Do you agree with the quotation?

13. "A bank wishes a strong reserve." "A bank wishes as small a reserve as possible. A reserve is idle money." Can these statements be reconciled?

14. "The government could justly tax bank issues 5 or 6 per cent. In the United States banks buy bonds and collect the interest on these bonds. They issue notes on the basis of these bonds and get interest on the notes also. Thus they make a double profit and so are favored over other businesses." Do you agree?

15. On which side of a bank statement should the following items go: overdraft, expenses, unclaimed dividends, certified checks outstanding? Explain why in each case.

16. Bank X has the following items in its account:

Loans and discounts	$380,000	Capital	$100,000
Bonds and stocks	21,000	Surplus	20,000
Real estate	12,000	Undivided profits	8,000
Notes	50,000	Deposits in other banks	40,000
Deposits	350,000	Cash items	10,000
Other assets	15,000	Specie and legal tender	50,000

A) Arrange these items as they should stand in a regular statement.

B) Taking this statement as a basis, account for the following transactions:

a) The bank discounts $50,000 of commercial paper for 3 months at 4 per cent per annum, making half the advance in cash and half in deposits.

b) $70,000 of loans are paid up at maturity. $10,000 of this payment is made in cash; $15,000 in the notes of this bank; and the remainder in checks drawn upon this bank.

c) A dividend of 2 per cent is declared, of which $\frac{1}{4}$ is credited to depositors and $\frac{3}{4}$ paid in cash.

d) The real estate increases in value by $3,000.

e) $5,000 is carried to surplus.

Balance the completed account. What is now the proportion of reserve (including cash items and deposits in other banks) to demand liabilities? What was the proportion originally?

17. Taking as basis the statement at the beginning of the previous question, account for the following transactions:

a) The bank cashes checks on other banks to the amount of $2,500 but does not at once present them for payment.

b) New deposit accounts are created to the extent of $10,000 by the deposit of checks on other banks.

c) $5,000 of loans prove bad and are not paid at maturity, but the bank partially escapes loss by taking $4,000 worth of bonds and stocks which it held as collateral for the loans.

d) The bank sells for cash at face value a draft for $1,000, drawn by it against another bank with which it carries a deposit account.

Balance the completed account. What is the proportion of reserve to demand liabilities?

ii. *Clearing-House Operations*

QUESTIONS

1. When the butcher and the baker cancel from their books equal accounts against each other, is this in the nature of a clearing transaction?

2. When you deposit checks in your bank and draw others in favor of your creditors, does the bank actually move money about? If all the parties interested dealt with the same bank, would that bank serve as a sort of clearing-house for these individuals?

3. What is the immediate function of a clearing-house? What are some of the indirect advantages?

4. Distinguish between clearing-house certificates and clearing-house loan certificates.

5. Are clearing-houses more important for checks than for notes? Why? Can you give instances of the practice of redeeming bank-notes through a clearing-house?

6. Why is the expedient of combined reserves resorted to? What is the fundamental advantage of the expedient? Would it be advantageous to combine the reserves of New York banks regularly and permanently?

7. "Combined reserves strengthen banks in their dealings with each other, i.e., through the clearing-house. Equalized reserves aid banks in their drains over the counter." What does this mean? Is it true?

8. Why in the United States do we trouble about combined reserves? Is there really less money in the country in time of panic?

9. How does the issue of clearing-house loan certificates affect the power of banks to lend? Are they profitable to the banks? Do they stay out long?

10. Are weekly reports of clearings any true indication of the prosperity of business in general? Explain.

11. Are payments in settlement of stock transactions in Wall Street (and elsewhere) included in clearings? To what extent does the volume of such payments reflect business prosperity?

12. Do all checks pass through the clearing-house?

13. How do banks not members of clearing-house associations manage their exchanges?

iii. *Comparison of Banking Systems*

Questions

1. Draw up a comparative statement in the form indicated below to show the regulations and policies of the Bank of France, the Bank of England, the Reichsbank, and the national banks of the United States.

		Bank of France	Bank of England	Reichsbank	National Banks of the U.S.
Date of establishment and reasons for establishment					
Ownership					
Management					
Financial relations with government					
Capital*					
Surplus*					
Notes	Extent of monopoly of issue				
	Nature of the limitation of the amount of issue				
	Provisions for security				
	Elasticity				
	Legal tender powers				
Reserve	Proportion to liabilities				
	Composition				
	Policy of maintenance in crisis				

*In giving figures for capital, etc., give amounts in the currency of the respective countries, with the equivalent sum in dollars in parentheses.

2. What provisions of law, peculiar to the United States national banking system, interfere with the reasonable extension of bank credit (including deposits and notes) in time of financial stringency?

3. What has been the effect of suspending the act of 1844 during periods of embarrassment for the Bank of England? Would experience suggest the repeal of the act, to give the bank greater freedom at all times?

4. Why is a large reserve maintained (*a*) by the Bank of France? (*b*) by the Bank of England?

5. Explain in detail whether or not the following statement would represent a proper condition of the *n*-th National Bank of Pittsburgh:

Capital	$150,000	Loans	$500,000
Surplus	25,000	U.S. bonds	55,000
Undivided profits	5,000	Other bonds and stocks	125,000
Deposits	600,000	Real estate	90,000
Notes	160,000	Other assets	25,000
		Due from banks	80,000
		Deposited with U.S. treasurer	7,000
		Specie and legal tender	55,000

6. Rank the national banks of the United States, the Bank of England, the Bank of France, and the Reichsbank in the order of (*a*) security of notes; (*b*) elasticity of note-issue; (*c*) reserve specifically held against deposits; (*d*) normal proportion of total reserve to deposits; (*e*) proportion of deposits to notes; (*f*) closeness of governmental control or supervision.

7. Why is an elastic currency desirable? Which of the means of payment in common use in this country are elastic?

8. State briefly the essential provisions of the Aldrich-Vreeland Act of 1908 and explain their purpose.

9. Why do not bankers in England and Germany resort to combined reserves in time of panic as is done in this country?

10. Do the reasons which make a speedy redemption of bank notes desirable apply in the United States today?

11. Give the arguments for and against state guarantee of bank deposits.

12. Give the arguments for and against a central bank of issue in the United States today.

iv. *Foreign Exchange* (treated under "International Trade")

IV. International Trade

1. *The Principles Determining International Trade*
2. *The Balance-of-Trade Idea*
3. *Foreign Exchange and International Payments*
4. *Regulation of International Trade* (with particular reference to the protective tariff)

International trade does not differ essentially from domestic trade. The motives leading to trade between inhabitants of the United States and inhabitants of England are not different from the motives leading to trade between inhabitants of Illinois and inhabitants of California. It has become customary, however, to give separate treatment to international trade, largely because such trade is almost everywhere the subject of special regulation by government.

1. The Principles Determining International Trade

a) *Trade Based upon Insuperable Differences of Economic Conditions* (e.g., trade between tropical and temperate regions)
b) *Trade Based upon Differences Constituting Reciprocal Superiority* (one region being superior in one line, the other region being superior in a different line, e.g., American export of breadstuffs to Cuba in exchange for sugar)
c) *Trade Based upon Differences Constituting Relative Superiority* (e.g., American wheat in exchange for British steel)

Given two regions where in each case the one is able, through natural endowment or character of population, to produce goods which the other cannot, it is natural that trade should arise. It is not difficult to see, furthermore, that given two regions where one has a superiority (though not a monopolistic superiority) in one commodity while the other region has a superiority (though again not a monopolistic superiority) in another commodity, trade is again a natural result. The third case is somewhat more puzzling. Given two regions, one of which is superior to the other in both lines of production, trade may arise provided the superior region is relatively stronger (compared with the inferior region) in one line of production than it is in the other line.

Note.—In every country natural advantages in production are reflected in the rates of wages and interest. In a country of superior advantages, the rates of wages and interest are likely to be high. Thus in the United States, the natural endowment of which is especially rich, wages are higher than in any other country; interest rates are also higher than in Western Europe. It follows that in industries requiring a relatively great expenditure of labor and an extensive capital equipment, as in many branches of manufacture, money costs of production are likely to be higher in the United States than in Europe, in spite of the fact that American workmen are often more efficient than European, and of the further fact that American capital frequently takes the form of better equipment than that of European countries. The money cost of production in the United States is

likely to be relatively low in the industries that make a large drain upon natural resources and require comparatively little use of labor and capital, as in many of the extractive industries.

With the steady increase in population and capital, the United States gradually overcomes the disadvantages that lie in the way of successful manufacture. Owing to the operation of the law of diminishing returns it loses gradually its advantages in extractive industries. Accordingly, even without interference on the part of the government, the United States would become more and more a manufacturing nation and become less and less engaged in extractive industries.

Questions

1. A is a good musician but is temperamentally unfitted for other work. B, while fond of music, is efficient only in farming. Is an exchange likely to take place? Would the situation be different if A and B represented regions of different natural endowment?

2. A by one day's labor can make nine units of x or two units of y. B by one day's labor can make two units of x or nine units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?

3. A by one day's labor can make 20 units of x or 10 units of y. B by one day's labor can make 15 units of x or 5 units of y. Would specialization and exchange be likely to take place? Would the situation be different if A and B represented regions instead of men?

4. A is a very able lawyer and also a very skilful stenographer. Is it surprising that he confines himself to the law and hires a stenographer who is much less skilful?

5. In the eight months ending August 1, 1909, the export and import trade of the United States with Europe amounted to $1,323,000,000; the export and import trade with South America amounted to $166,000,000. Do you believe that the relative volume of the two branches of our foreign trade will be the same fifty years from now? Why?

6. Every important commercial nation has, in the last two decades, endeavored to establish control over some portion of the tropics. Explain this fact on the basis of the conditions underlying international trade.

7. When China becomes modernized can the United States expect to export to that country large quantities of (*a*) manufactures? (*b*) agricultural products?

8. If Canada and the United States were one country would trade relations be different from those of today?

9. An American statesman of the nineteenth century declared that it was bad policy for the United States to import any commodity that could be produced in the United States? Do you agree?

10. Another statesman urged that no commodity which can be produced in the United States with the same amount of labor as in foreign countries could be economically imported. Do you think this position tenable?

11. It has been asserted that the income of the citizens of the United States could be greatly augmented if all commodities now imported were produced at home, and all commodities now exported were consumed at home. The cost of transportation, now amounting to several hundred millions annually, would thus be saved. Apply this argument to trade between the Middle West and the Pacific slope, and expose the fallacies involved in it.

12. "When we buy goods abroad, we get the goods and the foreigner gets the money. When we buy goods at home we get the goods as before, but the money remains in this country." Is this a valid argument against importing foreign products?

13. From your knowledge of the development of wants under modern conditions, should you argue that international trade will tend to increase or to diminish in the future?

14. What accounts for the fact that England exports cutlery and fine hardware to all parts of the world? Is it due simply to superior resources of coal and iron?

15. Is international trade likely to be permanent if based upon (*a*) differences of climate and other natural conditions? (*b*) differences in relative supply of land? (*c*) differences in relative supply of capital? (*d*) differences in character of population? Tell why you answer as you do in each case.

2. The Balance-of-Trade Idea

The doctrine of the balance of trade, although it is of relatively little significance in the economic science of the present day, has historically been important. It merits discussion at this point chiefly because of its lingering influence upon uncritical public opinion and because of its relation to the subject of the international exchanges.

Questions

1. What is meant by an unfavorable balance of trade?

2. Is an "unfavorable balance of trade" really disadvantageous to a country?

3. Does the term balance of trade refer to a balance between one nation and another nation or between one nation and the rest of the world?

4. The United States imports heavily from South America but exports very little to that continent. Is there any way in which the resulting indebtedness can be settled without a transfer of money? If so, explain how.

5. It is argued that imports of foreign goods may result in the necessity of exporting money to pay for them, and that, therefore, where such is the case, such imports should be stopped. Do you agree?

6. In the seventeenth century many nations tried to regulate trade so as to bring money into the country and keep it from going out. Was their plan a wise one?

7. Could a country continue to export gold for a long period of time? If not, why not? If so, under what conditions?

8. The value of British imports is nearly $1,000,000,000 in excess of the value of British exports and an excess of imports has continued for many years. How can you explain this?

9. The United States, in recent years, has had a favorable balance of trade and yet has exported gold. Explain.

3. Foreign Exchange and International Payments

Questions

1. Make a list of the causes which may lead to a flow of money from one country to another.

2. Explain the steps in the mechanism of foreign exchange by which a Chicago importer can pay a debt which he owes in London.

3. What is the par of exchange? How is it determined?

4. What are the gold points? Why does not exchange normally rise above the upper gold point or fall below the lower gold point?

5. "The nations of the world should adopt a uniform system of currency with a common standard. This would do away with all this bother about 'par of exchange,' 'gold points,' 'rate of exchange,' etc." Why or why not?

6. What persons deal in foreign exchange?

7. "The rate of exchange is simply another case of the application of the principle of demand and supply. Given two trading regions, if the payments due each from the other are equal, exchange will be at par. If an unequal balance exists, demand will exceed supply, or vice versa, and the rate of exchange will move away from parity." Take two regions, assume certain trading operations, and demonstrate this assertion.

8. Is the New York rate of exchange on London likely to fall below par at one period of the year and to rise above par at other times? If so, when and why?

9. If a Chicago merchant imports coffee from Brazil, and nobody in Brazil imports goods from the United States, how could the debt be paid with foreign exchange?

10. "International payments are made by credit instruments as long as they last. Gold flows only as a last resort." Explain.

11. If there should be a failure of the cotton crop next year, would there be any effect upon international exchange?

12. Would a rise in the rate of interest in New York tend to affect the international flow of gold? Would it tend to affect the rate of exchange on London?

13. How would the opening of rich gold mines in the United States tend to affect the rates of foreign exchange?

14. Would a rise in prices due to an inflated paper currency, such as took place during the Civil War, increase imports?

15. How is a country like England, which has no gold mines, supplied with gold?

16. Can gold have a lower value in England than in the United States?

17. Would the discovery of a rich field of gold in the United States increase or diminish the real wealth of England?

18. How does it concern the people of the United States whether or not a foreign country adopts the gold standard?

19. Should you expect gold to have a lower value in Alaska than in England? How great could such a difference in value be?

20. In the long run international payments tend to take the form of commodities, rather than of exchange or of specie. Explain the way in which (*a*) rates of foreign exchange stimulate exports at times when imports are in excess; (*b*) flow of money automatically gives place to movement of goods.

4. Regulation of International Trade (with particular reference to the protective tariff)

Questions

1. What is the distinction between a protective tariff and a tariff for revenue only?

2. It was once thought by some that if one person gained in trade the other lost. Do you believe this? Would such a theory hold true as regards trade between nations?

3. Assuming it to be constitutional, would it be wise for the state of Illinois to levy tariff duties on goods brought in from other states?

4. If the duty on oranges were sufficiently high it might be possible

to develop the orange-growing industry in Illinois. Would it not be wise to do so?

5. It is argued that the protective tariff by making it profitable to carry on an industry increases the output and engenders a competition which ultimately lowers prices. Do you think so? How does this argument agree with the argument that a permanent tariff is needed?

6. What is the infant-industry argument? Is it economically sound in your opinion? Does it apply to the conditions in the United States today?

7. At one time it was argued that because wages were high in this country a tariff was necessary to protect the manufacturers against European products made by cheaper labor. At a later period it was argued that wages were high because of the tariff, therefore the tariff should be continued in order to keep up the high level of wages. Can these statements be reconciled? Are they correct?

8. Can one without inconsistency use the infant-industry argument and at the same time argue for a permanent tariff to protect labor?

9. Protectionists assert that a developed and sheltered "home market" is of great benefit to sellers and buyers alike. Is such a home market worth the cost of protection (*a*) to the manufacturer? (*b*) to the consumer?

10. "If universal free trade were practicable it would doubtless be economically desirable. In actual fact, however, most commercial nations maintain protective tariffs; and consequently no single nation can afford to adopt a free trade policy, which would put it in the position of exempting foreign manufactures from duties while its own manufactures were taxed in foreign ports, and would deprive it of the power to secure tariff concessions from other countries by threats of retaliatory tariff rates." What do you think of this argument?

11. One contention in favor of a protective tariff for a nation with highly developed industries is the claim that such a tariff is necessary to prevent the "dumping" of goods by foreign makers, and consequent depression of the home market. Is this a valid argument? Does it make any difference whether the "dumping" is persistent or sporadic? Would "dumping" be a serious evil if there were general free trade?

12. Nation A levies no protective duties, and has, as a result, highly specialized industry, the products of which it exports in exchange for foodstuffs. Nation B, by heavy protective duties, has artificially forced the diversification of its industries. Which nation is better prepared for war? Which is better prepared for peace?

13. Do you think that considerations of military necessity, social

solidarity, and the cultural advantages of advanced and diversified industry have a more or a less important bearing upon tariff problems than the economic question of the cheapness of goods? Are they independent of the cheapness of goods?

14. "The protective tariff not only protects American industry: it also forces the European producer to pay for most of the expenses of running our government." Do you agree?

15. Who actually pays protective duties? Do you suppose the revenue to the government is as great as the increased expense caused to consumers of imported goods?

16. Suppose that a protective duty of $1 per pound on a commodity never before produced within the country has so stimulated domestic industry that only one million of the four million pounds of this commodity consumed in the country are now imported. How great will be the expense to consumers due to the imposition of the duty? How great will be the customs revenue to the government? What becomes of the difference? Does the government get any of it?

17. "Everything we buy abroad diminishes by so much the demand for American labor." Comment.

18. When did the United States adopt a policy of high protective duties and what were the reasons put forward at the time?

19. Why has the South favored free trade?

20. What are the reasons for the growing demand for a reduction of the tariff?

21. Explain the attitude of the different sections of the country toward the tariff at the present time.

22. What arguments can be advanced in favor of continuing the policy of protection in the United States?

23. We have had protection and the country has prospered greatly; therefore protection should be continued. Do you agree?

24. What is reciprocity? Has it any advantages over (*a*) unqualified protection? (*b*) absolute free trade?

25. Would it be more economical to aid American industries by giving them a bounty equal to the protective duty instead of that duty?

26. Why do we not have export duties in the United States? If export duties were imposed, whom would they benefit?

27. How would the adoption of free trade affect the American laborer? Which would better protect American labor, high tariff duties or laws restricting immigration?

28. What is the effect of a protective tariff on the conservation of natural resources?

29. Who really determines, in this country, whether an industry shall be protected? Who determines what amount of protection shall be given? Is the method a scientific one?

F. THE DISTRIBUTIVE PROCESS

I. Introductory
II. Rent
III. Wages and Trade Unionism
IV. Interest
V. Profits

I. Introductory

We have to do here with the sharing among the members of society of the economic goods produced—of the social dividend. How do men secure shares of this social dividend? What determines the amount of their shares? Of course, these shares are derived ultimately from production, and as industry is now organized the social dividend is distributed in the first instance mainly among the possessors of the productive agents. The laborer receives wages; the landlord, rent; the capitalist, interest; and the entrepreneur, profits. Ordinarily the payment is made in the medium of exchange, money. But money-wages, money-rents, etc., are merely the nominal shares in the distribution of wealth, and are technically called *nominal* wages, *nominal* rents, etc., accordingly. *Real* wages, rents, interest, and profits are shares or specific incomes of goods, and these shares plus taxes, etc., make up the amount of the social income or social dividend—the total of goods available for current use.

The determination of these distributive shares is not of course effected in practice by *formal* division of the social dividend as a lump sum. The term social income does not refer to goods actually collected together as an aggregate, or administered collectively for society. Practically, wages, interest, and rent are fixed by the bargains of entrepreneurs, and represent what they pay for labor and for the use of capital and land. In other words, the problems in distribution are problems in value. At this point the principles of value should be reviewed and the forces and manifestations of both demand and supply should be recalled to mind.

It is not contended that in actual practice all individual incomes are in exact proportion to productive service rendered. In the individual case, shares in the social dividend are secured in many ways and a multitude of forces bear upon the matter. For example, shares of

the social dividend are often the result of gift, inheritance, customary or legal appropriation, force, fraud, or theft. Most incomes of adult persons, however, are received because of direct or indirect participation in the productive process.

Questions

1. Was there any distributive problem when each household was economically self-sufficient?

2. A man devotes his time and effort, and the use of tools and land which he owns, to the making of one commodity, which he sells. Is the determination of his income, as a practical matter, a question of exchange or a question of distribution?

3. Four men, A, B, C, D, co-operate in producing a commodity. A provides the land, B furnishes the capital, C does the manual work, and D watches the market and directs the production. Explain whether it is a question of exchange or a question of distribution to determine (*a*) the aggregate earnings of the four men; (*b*) the earnings ot each man individually.

4. If a man co-operates with others in making one commodity, can he expect to get more than a share of the product? Try to answer the question: What determines the extent of the share he can secure?

5. "The distribution of wealth has become a practical problem because of specialization in industry." Comment.

6. "The theory of distribution is the theory of value applied to the valuation of productive services." Do you agree?

7. "Since real wages, rent, interest, and profits are shares of goods, they must be paid from the products of industry already past; for the goods which any given land, labor, and capital are in process of producing are not yet available." Why or why not?

8. In view of the gradual expansion of industry, will past products available for the payment of real wages, interest, etc., ordinarily be equal in amount to the output which those who receive the payment are currently engaged in producing? Does this suggest an element of unfairness in distribution? Does it suggest a motive for continued production?

9. Can you say which is more important, the productive process or the distributive process? Are they entirely separate and distinct?

10. "The only question of any real significance in economics is the question of distribution. Give us proper distribution." Do you think the amount to be divided has any significance?

II. Rent

1. *Introductory*
2. *The Differential Return* (without necessary reference to any particular system of land ownership)
3. *The Relation of Economic Rent to Contract Rent under a Régime of Private Property*
4. *Rent and Cost of Production*
5. *Rent in Relation to Taxation*
6. *Rent and Social Reform*
7. *Economic Phenomena Analogous to Rent*

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1. Introductory

The term Rent is here employed in a special and technical sense with reference primarily to the productivity of land. Rent is the return for the use of land under conditions which give it superior productiveness.

As has been explained, the amount of this return is a question involving the application of the theory of value, and it depends, as always in a value problem, upon demand and supply.

Questions

1. Is the demand for land a case of derived demand? elastic demand? composite demand? joint demand? Show why you answer as you do in each case.
2. Does the elasticity of the demand for land depend on the use to which the land is to be put? Illustrate your answer by means of examples.
3. In what ways is the supply of land influenced by each of the following forces: (*a*) physical limitation; (*b*) social limitation, either formal or informal; (*c*) cost of production?
4. Is there greater scarcity of good sites for office-buildings than of good corn-land? Why?
5. Could you "make" land of a character suitable for (*a*) building sites? (*b*) quarries?

2. The Differential Return (without necessary reference to any particular system of ownership)

Let us assume a given demand for the services of land. It is then to be noticed that on the supply side conditions arise in actual experience which give rise to a "differential return," according to the qualities of the land, and the way it is used. It is important to notice

that this "differential return" would exist under any organization of society.

Quality of land is by no means a matter of fertility alone. In the case of agricultural land, for example, the superiority of one piece over another consists in its capacity to yield a given product at lower cost; and since the cost of transportation to market forms part of the cost of production, properly speaking, accessibility of location is no less important than fertility of soil in determining the rent of agricultural land. Hereafter such land will be regarded as good in proportion as it combines fertility with favorable situation. It need scarcely be pointed out that in the case of building sites location is usually the only element of practical significance.

Questions

1 (*to illustrate agricultural rent, assuming extensive cultivation alone*). Suppose that in a certain self-sufficing community there are three plots of land, A, B, and C, of different grades such that the equivalent of 100 days' labor of a man with appropriate tools produces on A 200 bushels of wheat; on B, 150; and on C, 100. That is, a bushel of wheat costs on A half a day of labor and capital service; on B, two-thirds of a day; on C, 1 day. Obviously A will be cultivated first. B will not be cultivated until the demand for wheat warrants a labor and capital cost of two-thirds of a day per bushel, and C will be cultivated only when the demand warrants a cost of 1 day per bushel. Assuming that the product of each piece of land is limited to the amount specified above, make out a table such as is indicated below, showing, for each plot of land and under each of the given conditions, the yield in bushels and the rental in bushels which would be paid.

When Demand for Wheat Warrants Production at a Cost of	Land A		Land B		Land C	
	Yield	Rental	Yield	Rental	Yield	Rental
½ day per bushel						
⅔ day per bushel						
1 day per bushel						

2. Explain, step by step, the causes of rent under conditions of extensive cultivation by showing why, given the assumptions of the previous problem, (*a*) the price of wheat rises; (*b*) poorer land is resorted to; (*c*) the better land commands a rental; (*d*) the worst land in use does not command a rental.

3 (*to illustrate agricultural rent, assuming intensive cultivation alone*). Suppose that land A, as described in the preceding problems, is the only land available. If the application of more than 100 days' labor on this land causes diminishing returns to appear, not more than 200 bushels can be raised at the initial cost per bushel of a half-day's use of labor and capital. Using the same figures as in Question 1, assume demand to increase so that a total of first 100, then 200, and then 300 days' labor is applied with a resultant product of first 200, then 350, and then 450 bushels. Work out the rent in each case. Bear in mind that value in such cases must cover the cost of the marginal, or most costly, unit of the product. The total value of the crop will therefore exceed the total cost of the crop.

4. In actual practice, if different grades of land are simultaneously under cultivation, will cultivation be intensive (*a*) on any of the land? (*b*) on all the land?

5. Formulate a statement explaining the amount of rent which a given piece of land will command as a result of both intensive cultivation and differences in quality of land.

6. "Assuming demand, the cause of rent is the inadequacy of the better grades of land. This inadequacy depends upon (*a*) the physical scarcity of the better grades of land, and (*b*) the law of diminishing returns." Do you agree?

7. If all land were equally good, could there be rent?

8. Could the worst land under cultivation yield rent?

9. Does rent inevitably exist if at any one time lands of different fertility are cultivated?

10. Could land command rent while other land equally good remained unused?

11. Can there be no-rent land? Can there be no no-rent land? Under what conditions?

12. What would be the effect upon rents if new land were discovered? if a railroad opened up a new country?

13. If the state owned all the land would there be any rent? Why?

14. "The doctrine of rent breaks down because the doctrine of marginal cost is absurd. Suppose that the marginal cost of wheat to a certain farmer is 70 cents per bushel and that wheat is selling for 70 cents. If the average cost to this farmer is 50 cents, he will be under strong incentive to increase his output. Thus marginal cost does not operate so powerfully as average cost in price determination and thus the rent theory breaks down." Why or why not?

15. Is the rental of building-sites determined by the same principles which apply to agricultural land? If so, what use of building-sites corresponds to intensive cultivation?

16. Two isolated islands, A and B, are connected by a bridge. No foreign traffic exists. A can be used for cultivation alone, B for habitation alone. (*a*) Can any land on A have rent? Can any land on B? (*b*) Can all land on A have rent? Can all land on B?

3. The Relation of Economic Rent to Contract Rent under a Régime of Private Property

For want of a better term let us call the "scientifically determined differential" discussed in the preceding section *economic rent.* Now, in this present society of ours, the actual payment for the use of land (sometimes called *commercial* or *contract* rent) may be widely different from the economic rent, owing to imperfect competition, custom, long-term contracts, etc.

Questions

1. Assuming perfect competition, demonstrate that (*a*) the landlord cannot exact more than the economic rent from a tenant; (*b*) the tenant cannot secure the use of land without paying as much as the economic rent.

2. Can you cite cases where commercial rent exceeds economic rent? cases where it is less than economic rent? Try to explain the discrepancy in each case.

3. Does contract rent tend to equal economic rent under the share system?

4. What determines the amount which would be paid for a year's use of (*a*) timber lands? (*b*) ore-bearing lands? (*c*) city lots? (*d*) factory sites? (*e*) land controlling sources of water power? (*f*) fishing waters?

5. Is the "rent" of a down-town New York office rent in the economic sense of the term?

6. How much could be exacted for the use of land if it afforded an absolute monopoly of the sources of some rare mineral?

7. What is the reason for the assessment of betterments when a street is improved?

8. Are we to term the income yielded by permanent improvements on land rent, interest, or profits?

9. Are tenants likely to make permanent improvements upon rented land? Why?

10. How would rents in this country be affected by inventions radically improving, as regards efficiency and cheapness, (*a*) harvesting machinery? (*b*) artificial fertilizers? (*c*) refrigerator freight cars? (*d*) automobiles?

11. It is said that the development of the bicycle affected suburban site-rents. Explain.

12. Will agricultural rents increase in the United States? Will urban rents increase? Why? Would your answer be the same for all sections of the country?

13. Why did the land-owning classes in England oppose the repeal of the Corn Laws, which levied a duty on imported grain?

14. A 50-acre farm has a normal yield of 20 bushels of wheat per acre, and the normal price of wheat is one dollar per bushel. The farmer's outlay for labor, use of tools, etc., is $300 annually. His own labor is worth $500. (*a*) What is the probable marginal cost of wheat on this farm? (*b*) What is the economic rent? (*c*) If, because of a temporary corner, wheat were to sell for $1.50 for a few days, would that affect (*a*) the marginal cost? (*b*) the economic rent? (*c*) the contract rent?

15. "The price of land is ordinarily fixed by *capitalizing* the rental —i.e., a person will pay for a piece of land an amount which, if it were used for another investment equally secure and promising, would yield an income equal to the rent of the land." Is this an adequate statement? Is present rental or expected, future rental, capitalized?

16. "We all know perfectly well that much land which is not yet used will sell for a good figure. Take, for example, building land at the outskirts of the building section. The capitalization of rental in this case would be zero, yet the land will bring a good price." Comment.

17. A certain lot of city land is leased for 99 years at $10,000 a year. If taxes on the land amount to $2,500 per year, what price would the land sell for, assuming that the prevalent rate of net return from similar investments is (*a*) 4 per cent? (*b*) 5 per cent? (*c*) 6 per cent?

4. Rent and Cost of Production

Questions

1. From the standpoint of a tenant, is the rent he pays one of his expenses of production?

2. Suppose that the tenant should have his rents remitted by a benevolent landlord. Would the tenant increase his output? Would he sell this output at a lower price per bushel? Does the payment of rent affect the price of the products of rented land?

3. Taking the term cost of production to mean marginal cost, or the cost which determines the supply-price of the commodity produced, is rent determined by cost of production or is cost of production determined by rent in the simple case of one agricultural commodity, as wheat, raised on different grades of land?

4. If the owners of wheat lands mentioned in the last problem refused to be paid for the use of their lands, would the cost of production of wheat be changed?

5. In fact, land is used for many purposes. Does the fact that buildings are erected on better lands than are now used for growing wheat cause the marginal cost of wheat to be greater than it would be otherwise?

6. Is rent a result of production, a condition preceding production, or an outlay in course of production, (*a*) in the case of newly reclaimed land wanted for only one use? (*b*) in the case of land which has proved its fitness for many purposes?

7. A grocer establishes his shop on a corner site in a fashionable residence quarter of a large city. Should you expect his rental to be high? Why? Should you expect him to charge high prices? Why? Why should he choose such a location?

8. The small shopkeeper on the outskirts of a large city frequently says that he can sell his goods cheaper than the big stores in the center of the city because his rent is low. If that is so why do not the large stores move to a place where their rents would be lower?

5. Rent in Relation to Taxation

Questions

1. Suppose a tax, equal to the economic rent, levied on every piece of land. Assuming perfect competition, and assuming that the tenant leaves the land in as good condition as he found it, could a landlord shift to his tenant the burden of the tax, wholly or in part? What would be the effect of the tax upon agricultural prices?

2. How should you modify your answers to the preceding question if the tax were less than the economic rent, but proportional to it?

3. In actual practice who would be likely to bear the burden of the tax in each of the above cases?

4. How would the price of land be affected in each of the above cases? Would a man who bought the land after the tax had been imposed bear any of the burden of this taxation?

5. How would a tax of 10 cents per bushel on wheat affect rents?

6. Rent and Social Reform

Land is characteristically a free gift of nature, and many of the advantages of owning land are the results of natural or social conditions which the owner has done nothing to bring about. Hence the income of the landlord has been called the *unearned increment*, and social reformers have desired to abolish it.

Questions

1. Give a striking case of the unearned increment from your own experience.

2. A corporation buys a tract of waste land and proceeds to construct a large industrial plant, and to develop transportation facilities, lay out streets, and otherwise provide for the building up of a mill town. Do rents in such a town constitute an unearned increment?

3. Did individuals or society at large create the conditions which cause rent to emerge?

4. Do you consider that the real justification of private property in land is the fact that the acquisition of the land has involved effort and sacrifice, or the fact that land held as private property is more likely to be utilized efficiently for production?

5. Would the amount of available land be changed if private property in land were abandoned?

6. What advantages to society result from the private ownership of land?

7. If land nationalization is to be resorted to should you favor accomplishing it by the method of compensation or by that of confiscation? Why?

8. Is it right to buy stolen property? Since land is Nature's gift, has one a better right than another to it? Could we justify confiscation by this line of reasoning?

9. Can it be said that at present the rent surplus is practically to be regarded as interest on the money spent in the purchase of the land? Does that justify us in continuing the payment of rent to individual landowners?

10. Should you regard it as confiscation to tax away all *future* unearned increment? Could it be done?

11. Is land-owning always profitable? Do land-values always rise?

12. Would a tax on rent, by jeopardizing the advantages of land-owning, prevent the improvement of land? Do you know of cases in which persons have erected buildings or made other improvements on land they did not own?

7. Economic Phenomena Analogous to Rent

The principles of rent have often been extended to explain by analogy economic phenomena other than the differential return to land. Thus the excess of the total utility of a commodity over its total cost is called consumers' rent; the excess of interest received for loans of capital above the cost of saving which lenders have incurred is called savers' rent, etc.

Again, the higher earnings of specially skilled workmen or highly efficient entrepreneurs are often likened to rent.

A particularly interesting analogy is presented by the case of capital goods which cannot readily be duplicated or increased in amount, and which thus afford at least temporarily a superior and limited productive service. The return for such services has been called *quasi-rent* and constitutes the borderland between rent and interest.

III. Wages and Trade Unionism

1. *The Demand for Labor*
2. *The Supply of Labor*
3. *Some Practical Applications of the Principle of Demand and Supply to the Subject of Wages*
4. *The Specific Productivity Theory of Wages*
5. *Trade Unionism*

The problem here is the evaluation of the services of labor.

Wages in a specific case are the payment given for labor service rendered. Fundamentally, wages are economic goods—commodities and services (real wages). Practically, labor is paid for in money (money-wages or nominal wages) which gives the laborer command over these goods.

Our discussion will center on the application of principles of demand and supply to the problem of the value of labor.

1. The Demand for Labor

Questions

1. Is the demand for labor a derived demand? a composite demand? a joint demand? an elastic demand? a case where the principle of substitution has wide play? Prove your answer in each case.

2. Is the demand for the labor of footmen direct or derived? Is it a joint demand?

3. In determining the wage of a particular man, are we concerned with the demand for labor in general, or with the demand for labor of the kinds he can furnish, or with the demand for labor in his trade?

4. "Since labor is in demand simply as a means to the attainment of the utilities it serves to produce, the maximum price which will be paid for labor can never normally exceed the normal price of the

product. Whenever tools, etc., are necessary in production the maximum price which could be paid for labor will be less than the price of the product by the amount which must be spent for the use of the other productive factors." Do you agree with this line of reasoning?

5. Are these acts necessarily offers of employment to labor: (*a*) an offer to purchase a watch; (*b*) an offer to let a contract to build a $100,000 house; (*c*) investment of $1,000 in a savings bank?

6. Does a demand for antiques, paintings by old masters, etc., affect the general demand for labor?

7. Is the demand for commodities already manufactured a demand for labor?

8. If it takes 20 days to make an automobile, does an order for the delivery of an automobile within a week create a demand for labor?

9. Does the manufacture of shoes create a demand for the employment of labor in other industries?

10. Will the demand for labor be greater in a sparsely settled country or in a densely settled country, assuming rich natural resources in each case?

11. Speaking generally, does the laborer gain or lose by working under conditions of abundance of land and capital?

12. If a factory town is destroyed by fire will the demand for labor throughout the country at large increase or decrease?

13. Why should not the farmer who uses good land pay higher wages than the farmer on poorer land, instead of paying rent?

2. The Supply of Labor

The value of commodities in general has been shown to be related to conditions of supply—physical limitation, cost of production, formal and informal social control, monopoly, perishability, etc. Now, in attempting to discover how labor-service is evaluated, we must inquire whether this particular commodity is subject to the same laws of supply as the others. The inquiry is complicated by the fact that supply of labor is largely a matter of the number and abilities of the persons who work. But it is not permissible to regard persons as laborers only, with no interest in life except the rate of wages. These same persons are consumers, to meet whose needs the industrial system exists. Their capacities, their willingness to work, their very existence, depend not simply on the desire of others for their services but also on the desire to live and the ideals of living which have animated their ancestors and which continue to animate the workers themselves.

Questions

1. Does every individual represent the same amount of labor-power? Why?

2. Is there at a given moment any physical limitation of the supply of (*a*) laborers? (*b*) labor? What is the nature of the limitation?

3. What relation exists between the standard of living and the supply of (*a*) laborers? (*b*) labor?

4. Ordinarily an increased demand for a commodity which is not absolutely limited in amount will result in an increased supply. To what extent would this be true of laborers? of labor?

5. Does cost of production in the case of labor mean (*a*) mere subsistence of the particular laborer? (*b*) mere subsistence plus a return for expense of training? (*c*) sufficient return to enable a laborer to rear a family? If the last, how large a family?

6. Does what it "cost to produce" a given laborer determine his wage? Does it have any bearing on the rate of wages in the future?

7. Does the amount of labor which will be supplied depend to any extent upon the rate of wages? If so, does the rate of wages influence the number of persons able to work, or their willingness to work, or both?

8. To what degrees and in what ways is the supply of labor service affected by (*a*) perishability? (*b*) difficulty of transportation?

9. "The owner of labor cannot be separated from the commodity he sells. He must deliver it in person. This makes a difference between the supply of labor and the supply of other goods." How?

10. Cite cases where formal social control affects the supply of labor. Cite cases where informal social control affects it.

11. Does legal limitation of the hours of labor affect the supply of labor? May it in some cases actually increase labor supply?

12. Cite cases of monopolistic limitation of the supply of labor.

13. Do you think that immigration increases the supply of labor?

3. Some Practical Applications of the Principle of Demand and Supply to the Subject of Wages

Questions

1. It has been said that an increase in the number of laborers cannot depress general wages because this increase implies a corresponding increase in consumption and in demand for labor. Is anything overlooked in this argument?

2. How would a sudden introduction of machinery affect wages?

3. Why are the wages of skilled managers greater than those of street cleaners?

4. Why are the wages of servants higher in the United States than in England for the same grade of service?

5. What should you have to pay a cook in an Alaskan gold-mining camp?

6. Laborers on railway embankments in India were paid, according to Mr. Brassey, from 9 to 12 cents a day, but in England from 75 to 87 cents a day; yet the expense of building a mile of railway was about the same in the two places. How do you account for this?

7. Does unskilled labor suffer more or less than skilled labor by forced changes to new employment?

8. Can laborers, by strikes and combinations, raise their wages to a point where nothing is left for rent or interest? Why not?

9. Differences of wages have been classified as follows:

(1) Differences of Wages for Different Employments:
   (i) Differences tending to equalize the advantages of all occupations by making reward proportionate to effort and sacrifice.
   (ii) Differences arising from the more or less limited number of persons whose aptitudes, inborn or acquired, permit them adequately to perform a given task.

(2) Differences of Wages for Different Persons in a Given Employment:
   Differences corresponding to differences of efficiency.

Explain wherein these various differences are due to conditions of demand and wherein they are due to conditions of supply.

10. Give examples of cases in which arduous and unpleasant work commands a high compensating wage. Give examples of other cases where low wages and hard conditions of work go together. Can you explain the difference between the two groups of cases which results in this difference of remuneration?

11. Is the labor market a single, competitive market? Does the illiterate immigrant compete for work with the lawyer?

12. Show by means of examples how differences of wealth, education, social connection, inborn ability, etc., may separate the labor market into non-competing groups.

13. In the United States are the economic barriers between social classes effectual barriers?

14. "To secure the practical results of free competition as between employments it is not necessary that every person in any one employment shall be free to change to another. If a few are mobile their shifting will ordinarily suffice to adjust the supply of labor to the

demand in each employment." Explain this statement. What bearing has it on the principle of non-competing groups?

15. "Competition between apparently non-competing groups is in some cases made operative by an application of the principle of substitution. It may be possible, e.g., to replace skilled laborers by unskilled laborers working with improved machinery. The gap which exists between the two grades of labor is here bridged by substituting capital for superior skill of workmen." Give examples of indirect competition of this sort.

16. What effect on wages should you expect as a result of better provisions for free technical education?

17. Are the farmer, the miller, and the baker members of the same group of laborers, or of competing groups, or of non-competing groups?

18. Does the principle of non-competing groups help to account for differences between men's wages and women's wages?

19. In a certain office a man and a woman are sitting side by side doing the same work. The woman is, if anything, more efficient than the man. Her wage is considerably lower. Explain how this can be.

20. What reasons can you offer to explain why the wages of women are generally lower than the wages of men?

21. If laws were passed requiring that women should have the same wages as men wherever they were employed in similar work would men or women derive the greater benefit from the rule?

22. It is urged that a minimum wage should be fixed by law for certain industries. Why, or why not?

23. Allowing for all the influences thus far considered, what conditions fix the maximum and minimum limits to the rate of wages in a particular case? What determines the wage actually paid?

4. The Specific Productivity Theory of Wages

The value of labor appears to depend on the efficacy of labor. The efficacy of labor in turn depends on the manner in which labor is employed. Under certain conditions of demand and supply, labor may be used in conjunction with land and capital so inadequate that the product of the industry is restricted by the intensive operation of the principle of diminishing returns. In such cases where the labor force is disproportionately large, the product per laborer will be small.

This suggests the principle that individual wages for a given grade of labor will not exceed the amount which is added to the product by the effort of the marginal laborer; that if the supply of labor is

not excessive, and if laborers are able to exact favorable terms of employment on account of competition among persons who wish to hire them, wages will not fall substantially below the amount of the product added by the marginal laborer. The term "marginal laborer" means here, as most commonly, not the least competent laborer but the laborer of normal capacity employed under the conditions least favorable for his productiveness.

The theory that wages correspond to the marginal productivity of labor (i.e., to the productivity of those laborers who are least effectively employed) is known as the specific productivity theory of wages. Its adequacy to explain actual wages is disputed. At least it affords an interesting suggestion for the analysis of the demand for labor.

Questions

1. Could there be any production without labor? How is it possible to estimate the share of the product which labor, as distinguished from capital and land, produces?

2. Could an employer ascertain how much of the total product depends on the work of any one laborer?

3. Why should laborers in general consent to the remuneration which conforms to the product of the marginal laborer—i.e., of the laborer employed under the most unfavorable circumstances? Could they force the employer to pay more?

4. Can the laborers control the conditions which make the marginal productivity of labor small?

5. Suppose an increase in the number of persons seeking employment as laborers without any increase in the number of consumers of the products of labor. What will be the effect on wages? Will this effect be due to change in the marginal utility of the product or to change in the number of units produced by the marginal laborer?

6. Explain, according to the specific productivity theory, how, other factors remaining unchanged, wages would be affected by (*a*) increase in the number of laborers; (*b*) decreased demand for the product. Do you arrive at the same conclusion if you answer according to the demand-and-supply theory?

7. Does the specific productivity theory of wages take adequate account of supply of labor? How? Of demand for labor? How?

8. Do differences of wages as between occupations correspond to differences in the marginal productivity of labor?

5. Trade Unionism

a) Causes of Trade Unionism
b) Trade Union Organization and Demands
c) Trade Union Theory
d) Trade Union Policies and Methods
e) The Social Problem of Unionism

Trade unions, like railroads and trusts, are an important factor in the productive organization of industry. The unions have developed into a complex organic network which tends to parallel the pecuniary and political organization of society and influences eventually the productive process.

Trade unions are discussed in this outline under the distributive process because they are organized to secure, primarily, higher wages, shorter hours, and better conditions of employment generally for their members. They seek these ends by a great variety of means. Prominent among these means are: (1) the establishment of a standard or uniform rate of wages for each kind of work; (2) the fixing of a normal or uniform working day or week; (3) the establishment of standard or uniform methods of work and processes of production; (4) limitation and control of the speed and output of the workers; (5) entrance restrictions and apprenticeship regulations; (6) arbitration and conciliation; (7) strikes and boycotts; (8) trade union insurance; and (9) labor legislation.

The activity of trade unions has of late greatly stimulated the organization of employers' associations. Some understanding of these associations is essential to an estimate of the significance of unionism.

a) Causes of Trade Unionism

Questions

1. How do the economic functions, status, and social environment of the wage-workers and the employers differ essentially?

2. What is it that has caused these differences and what was their historical origin?

3. Do such differences create diverse notions on the part of workers and employers in regard to justice, rights, and importance of economic functions?

4. If you were a wage-worker should you feel that your interests and those of your employer were essentially opposed in any vital matters?

5. Under the conditions of capitalistic production and distribu-

tion what advantages has the individual employer over the individual worker in the bargaining which immediately fixes wages and conditions of employment?

6. Under modern conditions is the employer disposed or forced to exercise to the full extent any bargaining advantage which he may have over the workers?

7. Under what circumstances and in what ways might trade unions be of distinct advantage to employers?

8. As a matter of historical fact, when and under what circumstances were trade unions first organized?

9. Are unions at the present time usually of spontaneous origin? What circumstances ordinarily lead to their organization?

b) Trade Union Organization and Demands

QUESTIONS

1. What are the essential differences between a trade union, an industrial union, and a labor union? Name an example of each type.

2. What is a local union? What is a national or international union? What are the general relations between the local and the national union?

3. What are the principal union officers? Describe the duties ordinarily performed by the secretary, the organizer, the walking delegate or business agent. What is the sovereign union authority?

4. What is the American Federation of Labor? What is its relation to the various local and national unions? What are its policies?

c) Trade Union Theory

QUESTIONS

1. Some unionists look with disfavor upon the individual who "uses up more than his share of the demand for work." Examine the practical validity of this attitude.

2. Why do unions attempt to establish the principle of uniformity with respect to wage-rates, hours of work, and conditions of employment generally in a trade?

3. By what arguments do unions support their attempts to limit and control the speed and output of workers?

4. On what grounds do unions attempt to limit the numbers and control the workers in a trade?

5. Employers claim that unions attempt to prevent the introduction of machinery and improved processes. How would union advocates justify such attempts?

6. Unionists claim that "high wages breed high wages." On what assumptions is this claim based? Are they legitimate assumptions?

7. Can shorter hours and better conditions of employment be secured by all workers without lowering the wages of some?

8. When one set of workers secures higher wages without a corresponding increase of output, must someone else suffer? If so, who?

9. Will increase of the efficiency of one group of workers necessarily increase their wages or make it possible for them to secure higher wages?

10. If the anthracite coal miners forced the mine owners to grant a 20 per cent increase in wages, who might foot the bill?

d) Trade Union Policies and Methods

QUESTIONS

1. What is the practice of unions in regard to the admission of members? If the union refuses to admit a capable man does the union gain? Does anyone besides the debarred worker suffer?

2. What is the policy of unions in regard to apprenticeship? Is union apprenticeship an effective method of training skilled workers? What are the actual purposes of unions in maintaining the apprenticeship system?

3. Unionists claim that they favor industrial education "when it does not play into the hands of the employers." Explain this statement.

4. Most unions demand and attempt to enforce the union or closed shop; most employers are bitterly opposed to it. Why in each case?

5. Unions attempt to establish a minimum wage for each kind of work and a maximum number of hours that a man may work. Why, in each case?

6. In many recent wage disputes agreement was reached by three men—a representative of the employers, a representative of the unions, and a third chosen by these two. What is this mode of settling disputes called?

7. Distinguish arbitration, conciliation, and collective bargaining, and compare their advantages as methods of regulating the conditions of employment.

8. What is a trade agreement?

9. Are strikes as such beneficial to union laborers? On what grounds do unionists justify the resort to strikes?

10. What is a sympathetic strike?

11. In the last telegraphers' strike in Chicago workers in front

of the Western Union offices were arrested for "vagrancy." What strike duty were they performing at the time?

12. Unions are violently opposed to "scabs" and "rats," and such persons frequently fall into the hands of "educational committees." Explain the meaning of this statement. If you were a unionist should you have the same attitude toward scabs, and if so, why?

13. In a labor controversy the employer sometimes discharges all the workers; what is this action called? Has the employer a right so to discharge?

14. What is a blacklist? What is a "whitelist"?

15. What is the consensus of judicial decisions in regard to the legality of (*a*) sympathetic strikes? (*b*) picketing? (*c*) the boycott? (*d*) blacklists? Can you detect any general principle underlying these decisions?

16. What is an injunction? Why are injunctions especially effective in suppressing strikes? What changes in the law concerning injunctions are desired by the unions? Why?

17. Do the unions act as effective employment agencies? Why does a good unionist demand "union labor goods"?

18. What are the main methods used by employers' associations in fighting unions?

19. Are all employers' associations "union smashers"? What conciliatory or constructive functions may such associations perform?

20. If employers' associations continue to develop until practically all employers are associated in such organizations, will the position of the union laborer be better than the position of the individual laborer was before the days of collective bargaining?

e) The Social Problem of Unionism

Questions

1. Samuel Gompers believes that trade unions are one of the greatest educative forces in the country. Can you find grounds for this belief?

2. If all workers belonged to unions, could wages and conditions of employment be bettered for all by union policies and methods?

3. It is said that unions create an aristocracy of labor. Is it better socially to have a few workers highly paid and many poorly paid than to have all workers very moderately paid?

4. In some trades the American standard of living is threatened by the competition of immigrants satisfied with low wages and poor living conditions. Are the unions performing a social service in

attempting to maintain the American standard in these trades at all hazards and by all means?

5. If trade unions and employers are opposed, industry is likely to be unproductive and the public service interrupted; if the unions and employers combine, monopoly is likely to be the outcome. Is there any escape from this dilemma?

6. Would it be well to have a law in the United States similar to that of New Zealand providing for the compulsory arbitration of trade disputes? What is the attitude of the employers and unions in this country toward compulsory arbitration, and why?

7. Would it be well to have a law in this country providing for a government investigation of all cases where strikes or lockouts are threatened in public utilities and mines, and for the publication of the facts before a strike or lockout should be permitted?

IV. Interest

1. *Introductory*
2. *The Demand for Capital*
3. *The Supply of Capital*
4. *General Questions on Interest*

1. Introductory

Interest is the income from the use of capital. It is a part of the social dividend and represents the payment for the services of capital.

Capital has been defined as wealth used for further production —i.e., as producers' goods. The brief discussion of capital which was attempted under the head of "The Productive Process" conformed to such a definition, treating of *social capital* rather than *acquisitive capital*, and dealing with the tangible forms of capital, or *capital goods*, rather than with the loanable fund of purchasing power, which, expressed in dollars and cents, constitutes *pecuniary capital* and conveniently measures the aggregate of tools, machinery, material, or other goods which it is used to buy.

For the analysis of the problem of interest a more inclusive view becomes imperative. In the first place there are some forms of consumers' goods which, while not capital to society, still are not used directly to satisfy the wants of the owner, but only as a means of obtaining an income—e.g., a dwelling rented to another person. These goods, called *acquisitive capital*, yield interest, and are not in practical affairs sharply differentiated from producers' goods. In the second place the saving and lending of capital, and the reckon-

ing of the amount of capital, are accomplished most familiarly and easily in terms not of concrete goods, but of value, and especially in terms of money-value—pecuniarily. We must, then, give present attention to the concept of capital as a fund, partly to be invested in producers' goods, partly to be used in purchasing acquisitive forms of consumers' goods, and even in some part to be loaned and dissipated in luxurious expenditure, but always with the expectation of a return—the *interest* which is now to be explained.

The business man, as has previously been suggested, frequently speaks of the sum total of wealth invested in his business as his capital, regardless of whether this wealth consists of land, machinery, or wages advanced to labor. Similarly, he is apt to speak of the return from any income-yielding investment as interest, irrespective of the question whether the income is derived from capital, land, or any other source.

The question where to draw the line between interest and profits in particular is something upon which economists have not entirely agreed. For present purposes we may, however, distinguish: (*a*) the net return to capital, as determined by competitive conditions, without reference to the special form which the capital takes, and apart from any allowance for loss; (*b*) the gain or loss attributable to the way in which the capital is used, and including elements of compensation for industrial risk, of wages of skilled management, and of the exceptional return due to exceptional bargaining position. The factors enumerated under (*b*) do not strictly belong to the interest problem. They will be considered in the study of profits.

Questions

1. Can any part of the earnings of a bootblack be called interest?

2. Is the income derived from the following interest: a railroad bond; a share of stock in a land company; a share of stock in a coal-mining company?

3. A business man receives a salary of $10,000 a year as president and manager of a shoe-manufacturing concern; he receives a dividend on some stock in the same company which he happens to own; he is an active partner in a profitable leather firm; he owns a 5 per cent mortgage on some city real estate, 100 shares of stock in the United States Steel Corporation, and 50 shares in the American Tobacco Company; and he has a savings bank deposit paying 3 per cent. To what extent does the element of interest enter into each of these varieties of income?

4. When a concern declares an unearned dividend is the stockholder getting interest?

2. The Demand for Capital

a) *The Demand for Capital Goods*
b) *The Demand for Funds*

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a) *The Demand for Capital Goods*

Questions

1. Is the demand for capital goods a derived demand? a joint demand? an elastic demand? a demand affected by the principle of substitution?

2. Is there a composite demand for (*a*) coal? (*b*) sewing machines? (*c*) churns? (*d*) nails? (*e*) gasoline engines?

3. Explain whether, in what sense, and under what conditions the demand for each of the following commodities constitutes or involves a demand for capital goods: (*a*) steel rails; (*b*) overalls; (*c*) wheat; (*d*) candy; (*e*) wild flowers.

4. How would a rapid increase in the supply of labor affect the demand for (*a*) labor-saving machinery? (*b*) labor-equipping tools?

5. Does the demand for a capital good depend upon its productivity?

6. What is meant by the productivity of capital goods? Answer this question with reference to (*a*) a hammer; (*b*) a locomotive; (*c*) raw wool; (*d*) seed-grain; (*e*) grape-juice as it comes from the wine-press.

7. Are capital goods usually sold or hired? Are we concerned with demand for the goods, or with demand for their services?

b) *The Demand for Funds*

i. Long-Run Demand
ii. Momentary Market Demand

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i. *Long-Run Demand*

Questions

1. Is the demand for loanable funds a derived demand? a joint demand? an elastic demand? a composite demand? a demand affected by the principle of substitution?

2. What do you think of the proposition that the demand for pecuniary capital is derived from the demand for capital goods? Can you reconcile this statement with the fact that pecuniary capital

is the purchasing power which makes the demand for capital goods effective?

3. Is the demand for loanable funds due entirely to demand for producers' goods?

4. What was the prevailing attitude toward money-lenders in the Middle Ages? Do we today assume the same attitude toward bankers who provide the funds for business enterprise? Why?

5. Why do people who borrow money to buy consumers' goods which result in no new product have to pay the same rate as if they were borrowing to pay for productive capital?

6. How should you expect the demand for pecuniary capital to be affected by increase in the supply of labor?

7. Would a new and important invention increase the demand for pecuniary capital?

8. In what sense is pecuniary capital productive?

9. Is capital in the pecuniary form more usually sold or loaned? In the study of interest are we ordinarily concerned with the value of such capital or with the value of its services?

10. Is it demand for capital funds or demand for the *use* of such funds which, strictly speaking, bears upon the problem of the interest-rate?

ii. *Momentary Market Demand*

Questions

1. During a flurry of the stock market is the demand for loans on the part of speculators trying to "cover" likely to bear any close relation to the productivity of capital goods in industrial use?

2. Why is there an excessive demand for loans in time of financial panic? Is industry particularly productive at such times? Are people in general increasing their investments?

3. Why are the banks in this country so often led to a dangerous extension of loans during the early autumn?

4. The rate of interest on "call loans" is ordinarily lower than the rate on loans for a long period; but in time of panic call-loan rates may rise far above the general interest-rate. Can you account for this phenomenon on the ground of exceptional conditions of demand?

3. The Supply of Capital

a) The Supply of Capital Goods
b) The Supply of Funds

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a) The Supply of Capital Goods

Questions

1. Is the supply of capital goods, as commodities, subject to (*a*) physical limitation? (*b*) social limitation? (*c*) monopoly control? (*d*) the principle of cost of production? Give examples.
2. Is the investment of capital limited by the conditions which limit the supply of capital goods?
3. Does the productivity of a given kind of producers' goods bear any relation to the supply of such goods?

b) The Supply of Funds

i. Long-Run Supply
ii. Momentary Market Supply

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i. *Long-Run Supply*

(1) The Savable Surplus
(2) The Motives to Saving

The analysis of the supply of capital is somewhat aided by the above distinction between the savable surplus and the motives to saving—or, in the phraseology of John Stuart Mill, between the amount of the fund from which saving can be made, and the effective strength of the desire for accumulation. The distinction is, however, arbitrary. Plainly, what is "savable" depends on how much privation persons will undergo because of their desire to save. No attempt has been made to separate the following questions into two groups; but students should bear in mind, when discussing them, the two aspects of the supply of funds which are here suggested.

Questions

1. Could an individual save and accumulate capital if all the goods which his utmost efforts could acquire barely maintained him in a hand-to-mouth existence?
2. Could capital be accumulated within a country where the total amount of available goods would barely suffice to keep alive the present number of inhabitants?

3. Does accumulation of capital facilitate further accumulation? How?

4. What is saving? Distinguish the saving of capital from hoarding.

5. Would not some persons refrain from using all their income and lay by money "against a rainy day" even if there were in the meantime no opportunity to derive a return from its investment? If so, why should interest be paid for loans?

6. It is said that the rate of interest has to be sufficient to compensate the sacrifice made in saving the last or marginal unit of capital—the unit which represents the greatest sacrifice in saving. Why or why not?

7. The disinclination to save without compensation is sometimes stated to be due to the fact that persons ordinarily prefer present goods to future goods; the extent of this preference being indicated by the interest-rate necessary to induce saving. Try to draw up an analytical scheme of the reasons for thus discounting a future good. Do people fear they will never realize the good; or that its significance will not be the same when it comes; or are they merely too impatient to wait?

8. Suppose that a typical college student of twenty were offered (*a*) money to pay for his education; (*b*) a theater ticket; (*c*) a suit of clothes in the present style; (*d*) five years' life insurance; (*e*) a mahogany dining-table; and suppose that in every instance he were given the option of having the gift at once or ten years later. How would he choose, and why?

9. Vary the conditions of the previous problem by supposing that the dining-table were offered now or not at all, and that the money for education were promised at a date ten years later. Would the recipient be willing to borrow money at interest to anticipate the money-gift? Would he be willing to pay storage on the table until he had need of it? What light do your answers throw on the question of the inclination or disinclination to save?

10. Does the necessity of saving exist because of the present organization of society? Would there be "saving" in a socialistic society? If so, who would do the saving?

11. "Capital, though saved, and the result of saving, is nevertheless consumed. The word saving does not imply that what is saved is not consumed, nor even necessarily that its consumption is deferred." Explain. Who is the consumer? Is the consumption usually deferred?

12. It has been said that the original formation of capital is due to abstinence or saving, but its permanent maintenance is not. What do you say to either statement?

13. How would an increase in the efficiency of industry affect the supply of capital?

14. In what ways might a more general and a better education of the people affect the supply of capital?

15. How would a rise of the standard of living affect (*a*) the savable surplus? (*b*) the motives to saving?

16. How does the constant breaking out of war among the Central American states affect their supply of capital?

17. Is the effective desire of accumulation stronger in the United States than in Central America? Why?

18. What is it that prevents capital from increasing indefinitely? Provided the disposition to save remains the same, would as much be saved if the return to capital and labor constantly diminished?

19. "The supply of capital is limited by considerations of cost, in two forms: (*a*) the cost of production of capital goods, and (*b*) the cost, or sacrifice, of saving." Do you agree with this statement? What is the remuneration for each of these elements of cost?

ii. *Momentary Market Supply*

Questions

1. How would such a disaster as the destruction of San Francisco affect the supply of capital?

2. Can you explain high interest-rates in time of financial panic on the ground of reduced supply of loans? Why should the supply be reduced? Is there less desire to save under such circumstances?

3. Banks commonly loan money "on call" at very low rates. How can the bank afford to do this? Why does not the demand for capital for industrial purposes force the rate up? Could the construction of a railway be financed by call loans?

4. What is the "money market"? Who are the buyers and sellers? What do they buy and sell?

5. It is said that interest is paid for capital, not for money. Is this true?

6. The economic history of the United States shows that repeatedly, in sections of the country where capital was scarce, the people have clamored for a more abundant currency. Do you think that this would have removed their difficulty?

7. Does the supply of money on the market affect the rate of interest?

8. When gold is leaving England the Bank of England raises the rate of discount. Does this show that the amount of money determines the rate of interest?

4. General Questions on Interest

Questions

1. Try to formulate, in a few words, a specific productivity theory of interest on the analogy of the specific productivity theory of wages.

2. Can you reconcile the statement that the rate of interest is determined by the marginal productivity of capital with the statement that it is determined by demand and supply?

3. It has also been stated that it is the difference between the estimation of the present value and the estimation of the future value of the last unit of capital saved which determines the rate of interest. Can you reconcile this with the previous statements?

4. If producers' goods merely replaced themselves—i.e., added to the product of industry an amount equal to their own value as commodities—would there be any basis for the payment of interest? Would capital be saved? Would producers' goods be made?

5. How can you explain the fact that several centuries ago the rate of interest on investments in Holland was around 2 per cent, while today it is considerably above that?

6. Can legislation effectively regulate the rate of interest?

7. Is interest different from usury? If so, what is the difference?

8. Would industry benefit if the maximum rate of interest were legally fixed at $3\frac{1}{2}$ per cent?

9. What economic results would ensue if the charging of interest were prohibited by law?

10. Is capital mobile? Does it move freely from one country to another? How extensive is the market for capital?

11. Are there differences in the rate of interest as between different places or different occupations which cannot be explained by differences in risks?

12. Why has the rate of return on investments been around 10 per cent in the West, 7 per cent in the Central states, 5 per cent in New York, and 4 per cent in Germany?

13. Does the net return from an investment in capital such as a steel plant tend to equal the net return from the same amount of money invested in land, assuming the risk to be the same?

14. Are all investments in specialized capital likely to prove equally profitable? Why?

15. Suppose that a newly invented machine at present pays more than the prevailing rate of net return on its cost price. Is this situation likely to continue? Under competitive conditions, will the earning power of the new machine and the earning power of other machinery ultimately be equalized? How?

16. The selling-price of a machine is said to be determined by: (*a*) its cost of production; (*b*) the total value it is expected to add to what could have been produced without it; (*c*) the prevailing interest-rate. Criticize these statements. Can they be reconciled?

V. Profits

1. *Introductory*
2. *The Risks of Industry*
3. *General Questions on Profits*

1. Introductory

Profits are the share of the industrial product which goes to the entrepreneur. The chief elements entering into profits are:

a) The wages of management, a return for assuming the labor and burden of management. This element tends to equal the amount which the manager could get if he were employed at a fixed salary. Some economists prefer to classify this under the head of wages.

b) A gain or loss resulting from the risks inevitable in industry. Not only is there uncertainty in undertaking a new industry, but the more or less extended period of time required for production leaves any industry subject to the risks arising from chance or uncertain events.

c) An acquisitive gain due to superior bargaining power, resulting from monopolistic or other conditions. For example, monopoly or a position of particular advantage may enable the charging of higher prices for products, the paying of lower prices for materials, the control of labor supply, the acquisition of special privileges from public and semi-public bodies, such as low taxation and railway rebates, etc.

Questions

1. Are the following entrepreneurs: a cobbler, a farmer, a consulting engineer, the boss of a section gang, a banker?

2. In a corporation there may be bondholders, stockholders, directors, a president, a treasurer, and a general manager. Who is the entrepreneur? Who receives profits?

3. Should the income of an inventor be classified as wages or profits?

4. A promoter buys up various street railway lines, forms a new company, which is greatly over-capitalized, and sells the stock at a gain. Is the gain profit, and if so, what kind of profit?

5. What sort of profit do you think has been the basis of most of

the more recently acquired large fortunes in this country? Are they the result of acquisitive or of productive effort? What have the owners done to serve society?

6. The syndicate which underwrote the securities of the United States Steel Corporation is said to have made over $60,000,000. Was that profit? Do you think it was earned?

7. Give instances, taken from the actual business world, in which profits are to be regarded as essentially (*a*) wages of management; (*b*) the result of a fortunate issue of a risky enterprise; (*c*) due to monopoly of the sale of the product; (*d*) extortion from underpaid laborers; (*e*) "graft," under the form of franchise privilege, or of immunity from prosecution for illegal acts.

2. The Risks of Industry

a) The Nature of Industrial Risks
b) Speculation in Relation to Risks
c) Insurance in Relation to Risks

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a) The Nature of Industrial Risks

Questions

1. Describe some of the chief risks in industry. Group these into classes.

2. Is the process of production in modern industry spread over a longer period of time and is it more roundabout than formerly? How does this affect risks?

3. If everyone endeavored, year after year, to make the same articles in the same way, to sell the same quantities at the same prices, and to buy the same variety of goods at the same shops, would the risks of business disappear?

4. Are risks greater in a changing condition of industry? Why or why not?

5. Assuming that industrial methods are constantly changing, should you agree to the suggestion that those persons who are pioneers in introducing the new methods make profits because of the change, and that those who cling to obsolete methods are commonly losers? Explain your answer.

6. Is it possible by foresight and calculation to reduce or to avoid some of the risks of industry? all of the risks of industry?

7. Do you think that some men have special ability to grapple successfully with the risks and changes of business? If their ability

were recognized as characteristic would they not command high salaries as managers?

8. Is the theory of differences of wages according to differences of ability sufficient to explain the business man's gains from successful running of risks? Would it explain losses?

9. If we were to have a socialistic society would risks disappear?

b) Speculation in Relation to Risks

We may distinguish two forms of speculation: (*a*) industrial; (*b*) commercial. Industrial speculation consists in preparing for market, by changing the form, products the demand for which is uncertain, or products whose conditions of production are unknown or shifting. Commercial speculation consists in buying goods in one market and selling them in another where different price conditions prevail, or in buying at one time for sale at a more or less remote time. A certain degree of speculation is inherent in all competitive business. Successful speculation involves profits; the speculator is, however, always exposed to losses.

Both industrial and commercial speculation are carried on largely by persons who make a careful study of conditions of supply and demand, and are therefore better fitted to perform this function than are others. The chances of sudden wealth, however, attract to the speculative market large numbers of men who have no special knowledge of conditions affecting the goods in which they deal. Not only do they usually suffer personal losses; but through rash buying when prices tend to rise and precipitate selling when prices tend to fall they exaggerate the natural tendency toward price fluctuation. There are also men who are skilled in market conditions who manipulate the market and cause fluctuations which would not otherwise exist.

When a speculative market has developed, the actual producers of commodities can frequently transfer many of the risks of price change to the professional speculator. In a speculative market contracts for purchases or sales may be made at any time, to mature at some future period. A man who contemplates producing pig iron may insure himself against a price insufficient to cover materials and other expenses by selling pig iron for future delivery to a speculator. If the price of pig iron declines it is the speculator who bears the loss. When the finished product is not of a character to admit of speculative dealings, the manufacturer may nevertheless insure himself against serious price fluctuations by speculative dealings in the raw materials, since the finished product and the raw material usually undergo parallel price fluctuations.

An example will illustrate. A miller buys in February 10,000

bushels of wheat to turn into flour which he has contracted to deliver June 1, at the market price then ruling. To avoid the risks of a change in the price of wheat in the interval, and of a consequent change in the market price of flour at which he will have to sell, he "hedges" by selling "short," for future delivery, 10,000 bushels of "May wheat" at the same time that he buys for cash in February. If quotations are for

Cash wheat in February	$1.02
May wheat in February	1.04
Cash wheat in May	1.01

then the transaction will be as follows:

February Wheat Account		May Wheat Account	
Cost of cash wheat	$10,200	Received for "short sale" of May wheat in February	$10,400
Storage, insurance, interest, etc.	195	Cost of cash wheat in May to "cover"	10,100
Total cost of wheat	$10,395		
Value in May of the wheat used in making the flour	10,100	Profit on transaction	$300
Miller's loss by fall in price	$295		

Thus, though the miller's decision to buy his wheat in February results in a loss of $295, on account of the lower price of wheat in May, the "hedging" transaction offsets this loss by a gain of $300.

Questions

1. Work out the above case of dealing in wheat, substituting, as the price of cash wheat in May, (*a*) $1.08, (*b*) $0.90.

2. A certain cotton manufacturer displays great ability in the production of cloth, but he is nevertheless barely able to keep his head above water, because he is a poor judge of the raw cotton market and is more likely than not to buy when prices are inflated. Show how he could liberate himself from the consequences of this defect of judgment.

3. Miller A always covers purchases of wheat for milling by corresponding short sales. Miller B boasts that he is no speculator, and refrains entirely from transactions on the exchange. Whether prices rise or fall, A is insured his miller's profit, and never receives more. If prices rise, B makes a profit over and above his miller's profit. When prices fall, not only may his miller's profit be wiped out, but he may incur additional losses. Which one is really the speculator?

4. In 1906 a shipment of Dakota grain was sent by way of Seattle to Japan. By the time the grain reached Japan the price of wheat

there had fallen so low that this shipment was reconsigned to Liverpool, and sold at a price inferior to that paid for the wheat in Dakota. Did the actual shippers of the wheat necessarily lose on the transaction?

5. Speculators are often regarded as mere gamblers. If the whole body of speculators were to cease buying and selling grain, and limited themselves to betting upon the course of prices, would the work of commerce and industry be carried on exactly as it is at present?

6. Farmers often urge the abolition of speculative exchanges on the ground that they depress the price of produce; millers and spinners urge this abolition on the ground that they enhance prices. What is your opinion of the situation? Do you think it is true, as has been contended, that short sales create an artificial increase of supply, and necessarily lower prices for that reason?

7. Do men speculate because prices fluctuate or do prices fluctuate because men speculate?

8. It has been maintained that grain-speculators as a class cannot gain by a rise in price of their own creating. Why? Do the same reasons prevent individual speculators from manipulating prices to their own advantage?

9. Would the foregoing statement hold true of speculators on the stock exchange? Why?

10. Would speculation be destroyed if the organized speculation of the exchanges were prohibited by law?

11. Short sales of land are by nature impossible. Does this fact interfere with speculation in land, or make such speculation less hazardous than speculation in produce or securities?

12. During the Civil War certain wool manufacturers made enormous profits because of the rise in price of raw materials which they had on hand. After the war there were cases where these profits were nearly wiped out by losses consequent upon the fall in prices of raw materials. Explain. Could the loss have been avoided?

13. "Industrial speculation anticipates the wants of society. If the speculator has judged wisely, society is better provided with goods than it would have been had its entrepreneurs been averse to taking chances. If the speculator has miscalculated, he incurs a pecuniary loss and society suffers from wasted resources." Is this true? Write out a similar statement concerning commercial speculation.

14. It is argued that if a shortage of a staple commodity occurs, a rise in its price is a social advantage. Explain, using as illustrative commodities (*a*) ice; (*b*) sugar; (*c*) structural steel.

15. State briefly your opinion of the relation of speculation to industry.

16. How do you distinguish between socially desirable and socially undesirable speculation?

c) Insurance in Relation to Risks

The discussion of speculation showed that in many cases speculative markets make insurance against risks possible. Insurance is treated in this present section with particular reference to the definitely organized business of insurance, e.g., fire insurance, etc.

QUESTIONS

1. Why do people insure against risk? Does insurance decrease risks?

2. What is the service performed by an insurance company? Is insurance productive?

3. What determines the premium paid for insurance? In the long run, do premiums paid exceed in aggregate amount the settlements for losses? If so, how can a person afford to carry insurance? If not, how can insurance companies remain solvent?

4. Suppose one concern owns buildings in a great many different places, so that the fire risk is distributed. Would it pay better to insure in a fire insurance company, or merely to set aside a reserve against losses? For example, should the Pennsylvania Railroad Co. insure its station buildings? Should the Postoffice Department insure the fittings of rural post-offices?

5. Does insurance, such as fire insurance or plate-glass insurance, enter into the cost of production?

6. Is the number of fires likely to be increased by the fact that buildings are insured?

7. In some cities the fire-insurance companies contribute heavily to the maintenance of fire departments. Is this properly a part of the insurance business?

8. One insurance company has insured buildings pretty generally throughout the country; another has confined itself exclusively to a certain city. With which should you prefer to insure your property, and why?

9. Insurance, like speculation, has sometimes been likened to betting. I pay $36 to a certain company: if my house burns down within three years, the company pays me $3,000. This means, in a certain way of thinking, that I bet $36 against $3,000 that my house will burn down. Is this a proper view of the situation? If I were a gambler by disposition, should I be likely to insure my house?

10. At the time of the coronation of King Edward VII London

tradesmen took out insurance against his death. Again, when King George V was crowned, the rain-insurance reached very large figures. Why? Is such insurance of benefit to society?

11. Is it possible for manufacturing concerns to unite, apply fire protection scientifically, exclude those who will not protect, and reduce fire losses to a minimum? Is that an advantage to society?

12. Why are there no insurance companies that undertake to insure producers against price fluctuations?

13. Why should not insurance companies undertake to bear the risks of business and to pay (or charge) to entrepreneurs a fixed annual sum in commutation?

3. General Questions on Profits

The student should keep in mind the fact that the subject of profits covers losses as well as gains. Differences in profits are not simply the difference between a large profit and no profit, but also the difference between a large profit and a heavy loss.

Questions

1. Do profits tend to an equilibrium as between different individuals? different occupations? different places?

2. It is said profits and losses in a given industry tend to balance each other. Is this true of gold mining? Why or why not?

3. Are differences in profits due more to skill and ability than to chance?

4. Are the profits of a business man a good measure of his service to society in the production of wealth?

5. "Profits are analogous to rent in that the skilled risk-taker gets a differential return over the risk-taker of ordinary capacity." Why or why not?

6. Do profits enter into cost of production?

7. If an industry were generally depressed, but one employer were by exception making high profits, what rate of wages would he pay? If industry were prosperous, but one employer were by exception making no profit, what rate of wages would he pay?

8. "The entrepreneur is the residual claimant of industry." What does this mean? Do you think the statement is true?

9. According to the specific productivity theory land, labor, and capital tend severally to receive returns commensurate with their respective productive services. If this is true, what is left for the entrepreneur?

10. Is business management to be regarded as a fourth pro-

ductive factor, co-ordinate in importance with land, labor, and capital, or is it merely the proper proportioning of those three factors?

11. In a new industry, or when new methods are introduced into an old industry, profits are said to be due to the temporary, exceptional productivity of land, labor, and capital which are nevertheless paid for at the rates previously paid in other industries. If so, would profits disappear as soon as the new industry was established on a basis of general competition?

12. After a change in industrial methods which greatly increases productive capacity, profits are commonly no greater than before; yet after all we depend on the self-interest of the entrepreneur and his desire for profit to secure both (*a*) the introduction of better methods and (*b*) their maintenance after introduction. Explain how this can be.

13. "Monopoly profits are more likely to be permanent than competitive profits." Do you agree?

14. In what way will a sudden depreciation of the currency affect profits? a sudden appreciation?

15. "Profits as a return for risk is nonsense. We know that many men engage in industry because they love independence and delight in risks. They would engage in industry even if there were no return to risk." Comment.

16. "Profits are a great factor in promoting economic progress." "Profits are unnecessary. These gains should go to the other factors of production." With which statement do you agree? Does it make any difference whether the profits spoken of are monopoly profits or competitive profits?

17. What definition of profits do you accept?

18. Could it be said that profits are determined by the demand for business management and the supply of managerial ability?

G. PUBLIC FINANCE AND TAXATION

I. The Forms of Public Expenditure
II. The Sources of Public Revenue

I. The Forms of Public Expenditure

QUESTIONS

1. Draw up a classified list showing the more important items of expenditure of the federal, state, and local governments in the United States.

2. Why should the following facilities and services be provided by the government rather than by private persons: military defense; police; administration of justice; postal service; roads; street-lighting; lighthouses; improvement of rivers and harbors; preservation of forests; agricultural experiment farms; parks and playgrounds; sewers; medical examination of school children; hospitals; asylums; poor relief; protection against fire; libraries; museums?

3. From a purely selfish viewpoint is it to the advantage of particular individuals to avoid the payment of taxes? Would it be advantageous if everyone avoided taxation?

4. If the government renders services which are greater in proportion to the money spent than individuals could procure for themselves, should the poor be exempt from contributions to the support of government?

5. Should government expenditures be absolutely small, or merely small in relation to the benefits to be secured?

6. Are government activities in general, at the present day, increasing in scale? In range? Why? Does this imply larger public expenditures?

II. The Sources of Public Revenue

1. *Public Loans*
2. *Public Domain*
3. *Public Industries and Investments*
4. *Fees and Assessments*
5. *Taxation*

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1. PUBLIC LOANS

By borrowing, a government may utilize unemployed private capital in meeting extraordinary needs for expenditures too great

to be paid from the ordinary public revenues. The burden of the loan can thus be distributed over a series of years by payments for interest and sinking fund. Such borrowing may become an abuse if it results in pledging the income of the future for merely present benefits. It is justifiable in the adjusting of slight temporary deficits, and also (1) as a means of tiding over some great emergency, or (2) to provide for government investments on capital account from which is expected to result either (*a*) a definite income sufficient to cover the interest and the ultimate repaying of the principal of the loan, or (*b*) a real and lasting, though less tangible, benefit accruing in the future.

Questions

1. A municipality sells bonds (*a*) to build a schoolhouse; (*b*) to instal a system of sewers; (*c*) to construct waterworks; (*d*) to provide a public display of fireworks on the Fourth of July. Which of these transactions meet your approval?

2. During the development of transportation facilities in the Middle West several states issued bonds as a means of providing money for the construction of canals. Interest on the bonds was to be derived from the earnings of the canals, after they were completed. Was this a legitimate method of raising revenue?

3. In time of war governments commonly borrow to a very large extent. Is this good policy? Does the war provide the means for the payment of interest or the repayment of the debt?

4. When a government issues paper money in the form of notes redeemable in gold on demand is it borrowing?

5. What are the advantages or disadvantages of note issue as contrasted with bond issue for purposes of public finance? Do the circulating notes bear interest? Are they sure to be ultimately presented for payment?

6. During the latter part of the Civil War the United States government issued large quantities of greenbacks in exchange for supplies bought at the high prices then prevailing as a result of the inflation of the currency by previous issues. Subsequently the government has been redeeming the greenbacks in gold in times of much lower prices. Was the transaction wise?

7. The Cleveland administration, at the time of the currency troubles of 1893, resorted to the sale of bonds and paid out the proceeds in redemption of the greenbacks and treasury notes which were being presented for payment. This expedient has been much criticized. Do you think it was appropriate?

2. Public Domain

The public domain, which was an important source of revenue in feudal times and in monarchies which preserved the usages of feudalism, yields little income in the United States. This is due to the fact that here the general policy has been to grant public lands, etc., on easy terms to private owners, rather than to exact payment for their use. Possibly the charging of royalties for the use of timber and mineral lands and for water power may become more prevalent. At present the revenue thus derived is so slight as to be unimportant, especially in view of the expenses of maintaining the public domain.

3. Public Industries and Investments

The primary purpose of governmental industry may be (1) to restrict the use of certain commodities, as opium, alcohol; (2) to render improved service; (3) to maintain a so-called fiscal monopoly. In the first and second cases revenue is more or less incidental; in the third the expectation of revenue is the dominant motive.

Questions

1. What forms of public industry are maintained in this country, and what is the reason for state control in each case?
2. Is the government mail service either fiscal or restrictive in character?
3. What is the purpose of the tobacco monopoly of the French government?

4. Fees and Assessments

A *fee* is a contribution exacted from a person (natural or corporate) to defray in part or in full the expense of a specific service rendered him by the government: e.g., the fees in connection with court proceedings, with the issue of certificates of various sorts, or with special facilities rendered by public educational institutions.

A *special assessment* is a compulsory contribution, levied upon persons who are assumed to derive particular benefit from some public facility or service provided primarily for the general good, and apportioned among them according to their participation in the benefit: e.g., assessments for betterments levied on owners of property abutting on streets which are widened, paved, etc.

It should be noted that the services for which fees are charged are also rendered with reference to the public good, as is implied by their governmental character; but they ordinarily involve the general

welfare less obviously than do the services which give rise to special assessments, and they are commonly rendered in response to the specific request of the person who pays the fee.

Questions

1. Do the fees incidental to litigation interfere with the proper administration of justice?
2. Would litigation be more prevalent and prolonged if all the expenses were borne by the government without the charging of fees? Would this promote justice? Would it be economical?
3. Is it desirable or fair to make the peaceable members of a community pay for the contentions of those who are constantly going to law?
4. Do you know of cases in which the fees collected by public officials have exercised a demoralizing influence in politics?
5. Is special assessment an appropriate method of paying for improvements in a street (*a*) if the abutting property owners desire the improvement? (*b*) if they oppose it?
6. Do you know of cases in which special assessments have taken the form of exploitation of property owners for the benefit of the contractors who were given the job?

5. Taxation

a) *Canons of Taxation*
b) *Forms and Incidence of Taxation*
c) *Tax Reform*

"A *tax* is a general compulsory contribution of wealth collected in the general interest of the community from individuals or corporations by an exercise of the sovereign power of government, and levied without reference to the special benefits which the contributors may severally derive from the public purposes for which the revenue is required."—*U.S. Census Report on Wealth, Debt, and Taxation.*

a) *Canons of Taxation*

i. The Principle of Benefit
ii. The Principle of Ability or Faculty

Taxation is the principal source of public revenue, yielding in this country about three-quarters of the total revenue of the government. Consequently it is of the greatest importance to devise a system of taxes which shall be in the highest possible degree efficient and equitable. Simplicity, stability, convenience, and economy in

collection, with the largest possible yield, are criteria of a good tax. The justice of different forms of taxation is tested by certain canons or principles of which the most familiar are considered below.

i. *The Principle of Benefit*

QUESTIONS

1. Would it be equitable (*a*) to tax German subjects in order to enlarge the British navy? (*b*) to tax citizens of California to build roads in New York? (*c*) to tax the citizens of the United States in general to deepen the harbors of coast cities? (*d*) to impose a protective tariff which raises prices throughout the country for the benefit of a local industry? (*e*) to tax the rich for the support of poorhouses? (*f*) to tax the childless for the maintenance of public schools?

2. Should you agree that individuals should not be forced to support public activities from which they do not consciously benefit or that the burden of a given tax should be distributed in proportion to benefits received?

3. If taxation were regulated exclusively according to the principle of benefit, would taxes differ from fees?

4. Is it proper for the state to care for needy citizens? If so, who is to pay?

5. How could one determine how much a given citizen was benefited by the construction of a "Dreadnought"? by the maintenance of the Supreme Court of the United States?

6. Do the rich or the poor benefit more by the activities of government? Which is the more dependent on government: the man with much to gain or the man with much to lose?

ii. *The Principle of Ability or Faculty*

QUESTIONS

1. Can it be maintained that the well-to-do should pay more tax than the poor on the ground that (*a*) the poor have a right to be supported by the wealthy? (*b*) the possession of wealth is prima facie evidence that the possessor has enjoyed special benefits as a result of living under the government which he is asked to support? (*c*) ethically, one should sacrifice himself for others as far as possible? (*d*) someone must pay, and the poor cannot pay without great hardship?

2. Is taxation according to ability a penalty on attainment and a premium for sloth?

3. What is the test of ability to pay? Is ability proportional to income? to property? Is it measured by excess of possessions above a minimum regarded as indispensable?

4. Are indirect taxes inequitable in that they raise for all persons alike the cost of necessities of life?

5. Is equality of sacrifice a satisfactory criterion of the justice of taxation?

b) Forms and Incidence of Taxation

i. The General Property Tax
ii. Customs Duties
iii. Excise Taxes
iv. Income Taxes
v. Inheritance Taxes
vi. Corporation and Business Taxes

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i. *The General Property Tax*

QUESTIONS

1. Who bears the burden of (*a*) an established tax on land? (*b*) a newly imposed tax on land?

2. Who bears the burden of a tax on buildings (*a*) if the tax is imposed after the buildings are constructed? (*b*) if the buildings are constructed after the tax has gone into effect?

3. Should real property and personal property be subject to the same sort of taxation? Should the same tax be levied on (*a*) land and buildings? (*b*) furniture and investment securities?

4. It is maintained that because of the widespread evasion of taxes on intangible personal property, those owners of stocks and bonds who do declare their holdings are forced to pay in taxes an exorbitant proportion of their income. Is their burden heavier than that of the landowner? Why or why not?

5. Might a low rate of taxation on intangible personal property bring in more than a high rate? Why?

6. If all investments in stocks and bonds were declared for taxation would the aggregate value of taxable property be appreciably greater than is now the case? Could present tax-rates be lowered?

7. Is a high tax-rate on a low assessment or a low rate on a high assessment the more advantageous from the standpoint of (*a*) the taxpayer? (*b*) a city desirous to issue bonds? (*c*) a landowner trying to mortgage his property? (*d*) a municipality required to pay over, out of its receipts from taxation, a fixed number of mills on the dollar as a state tax?

8. It is contended that the general property tax, by making it relatively unprofitable to hold landed property, encourages exhausting

cultivation, slaughter of timber lands, and exploitation of natural resources in general. Explain.

9. Is the general property tax equitable? Is it effectual?

ii. *Customs Duties*

QUESTIONS

1. What advantages does a system of customs duties offer as a means of raising revenue?

2. Would customs duties be a satisfactory source of revenue for the United States in time of war with a great naval power?

3. Make a list of the disadvantages of a system of customs duties.

4. Should customs duties for purpose of revenue preferably be imposed on necessities or on luxuries? on goods with an elastic demand or on goods with an inelastic demand? Does your conclusion conform to the principle of ability to pay?

5. Is a protective tariff an economical method of taxation?

6. Mention five commodities on which import duties for purpose of revenue would in the case of this country be especially appropriate.

7. Distinguish between specific and *ad valorem* duties. Mention a commodity on which a specific duty would be the better. Mention a commodity on which an *ad valorem* duty would be preferable.

8. Who bears the burden of a revenue tariff?

9. Who bears the burden and who gets the benefit of a protective tariff (*a*) in so far as the taxed commodities are chiefly imported? (*b*) in so far as the taxed commodities are chiefly produced within the country?

iii. *Excise Taxes*

QUESTIONS

1. Define excise taxes.

2. What advantages does a system of excise taxes offer as a means of raising revenue? How are excise taxes collected?

3. State the disadvantages of a system of excise taxes.

4. For purposes of revenue is it better that excise and customs taxes should be levied on the same or on different commodities?

5. Do excise taxes discourage home industries and favor the foreign manufacturer?

6. For the purpose of revenue should excise taxes preferably be imposed on necessities or on luxuries? What is the practice in this respect in the United States? Does this practice conform to the principle of ability?

7. Are excise taxes in this country imposed strictly for fiscal

purposes? May they be regarded as being equivalent to sumptuary laws, either in effect or by intention?

8. Who bears the burden of excise taxes?

iv. *Income Taxes*

QUESTIONS

1. What has been the chief obstacle to a federal income tax in the United States? Has this obstacle prevented state taxation of income?

2. What has been the chief obstacle to effectual administration of state income taxes? Would this difficulty have the same force in the case of a federal income tax?

3. What is taxation of income at the source?

4. For purposes of fiscal administration could income be satisfactorily defined? Does the definition of income include increase in the value of property? Does it exclude allowance for depreciation?

5. Should income taxes be progressive? Should incomes below a certain amount be exempt from taxation?

6. Who bears the burden of an income tax?

7. Are income taxes in harmony with the principle of ability? with the principle of benefit? with the principle of equal sacrifice?

8. Should you regard an income tax of $33\frac{1}{3}$ per cent as excessive? Is it really heavier than a general property tax of 20 mills on the dollar, levied on a 4 per cent security assessed at two-thirds of its market value?

v. *Inheritance Taxes*

QUESTIONS

1. How high a rate should you approve in taxation of inheritances? Has anyone a right to inherit? to unrestricted inheritance?

2. Should inheritance taxes be progressive? If so, should the progression be based on the amount of the estate, the amount of the specific inheritance, the amount of the previous property of the heir, or the degree of kinship?

3. What inconveniences result from the separate administration of inheritance-tax laws by the several states?

4. Is it proper to tax an inheritance in more than one state? Is the tax in practice to be paid in the state of the testator, of the beneficiary, of the location of the property, or of the trustee under the will?

5. Who bears the burden of an inheritance tax? Is the burden according to benefit? according to ability?

vi. *Corporation and Business Taxes*

Questions

1. Who really pays a tax levied on (*a*) the granting of a corporation charter? (*b*) a factory owned by a corporation? (*c*) the franchise privileges of a public service corporation?

2. Is the value of a franchise an unearned increment? Should the total income attributable to the special privilege of the franchise be absorbed by taxation? Would such taxation be confiscatory?

3. What is the best test of the taxable value of a business?

4. Is a high-license tax on saloons a desirable form of taxation? Why? Who bears the burden of the tax?

c) Tax Reform

Questions

1. Distinguish between direct and indirect taxes. Is the distinction of importance in economics? in United States constitutional law?

2. Of the several forms of taxation which have been discussed, which, in this country, are primarily employed (*a*) by the federal government? (*b*) by the states? (*c*) by local governments? Why?

3. Of our present forms of taxation which are likely to increase and which are likely to decline in importance with the progress of scientific reforms?

4. Is the need of government revenues increasing? Will taxation in the future be depended upon for larger resources than at present? Would a heavier burden of taxation furnish an incentive to tax reform?

5. Try to estimate the amount of indirect tax which you pay in the course of a year. If people in general realized how large a proportion of their total expenditure goes for taxes would the problems of tax reform receive more attention?

6. Is the benefit theory or the ability theory of taxation the more acceptable at present? Does the movement toward larger functions of government indicate a growing belief in one of these theories rather than in the other? If so, which seems to be gaining ground?

7. Is a thoroughly good system of taxation attainable in this country without amendment of the Constitution of the United States? Do you anticipate such an amendment?

H. SOCIAL REFORM

I. Criticisms of the Present Industrial Order
II. Remedies Which Have Been Suggested
III. Suggested Ideals of Distributive Justice

Up to this point, the study of industrial society has been confined almost entirely to a study of things as they are—to an analysis of the actual structure with but little reference to proposed changes. The present industrial order is however neither final nor satisfactory. Its defects have evoked endless criticism, and many modifications of the existing régime have been suggested, some of which amount to social revolution. These criticisms and suggested remedies we may now consider and test with the aid of the principles established in our study of the economic situation as it exists.

The outline of social reform which follows is on an extremely limited scale. Only so much is attempted as shall indicate some of the directions in which a more thorough inquiry might proceed. Questions are introduced, as elsewhere throughout the book, to develop important problems for investigation; but on many points the analysis hardly goes beyond a mere schematic statement of the case.

I. Criticisms of the Present Industrial Order

1. *Economic Defects*
   - *a*) Defects of the Productive Process
     - i. Wastefulness and Duplication of Effort
     - ii. Artificial Stimulation of Wants
     - iii. Production for Sale Rather Than for Service
     - iv. Carelessness in Conserving Human Energy
   - *b*) Defects of the Distributive Process
     - i. Great Inequalities in Possessions and Incomes
     - ii. The Unfortunate Situation of the So-called Lower Classes
     - iii. The Consequences—unbalanced social development, and probable impairment of the efficiency of production
2. *Resulting Social and Political Defects*
   - *a*) Corruption, Favoritism, and Inefficiency in Government
   - *b*) Militarism
   - *c*) Vice and Crime
3. *Difficulty* (impossibility?) *of Remedying These Evils under the Present System*

Questions

1. Mention two instances which illustrate each of the above-mentioned defects of the productive process.

2. Is non-competitive enterprise free from waste and duplication of effort?

3. Is wastefulness an advantage in competitive industry? Could it be maintained that the stimulus of competition prevents waste more than it causes waste?

4. Which is the greater danger: that competitive industry will stimulate excessive and artificial wants, or that non-competitive conditions will result in neglect to provide for wants already felt?

5. Would adulterated goods be offered for sale except under an individualistic and competitive economic régime?

6. How do you distinguish between adulterated or spurious goods and cheap substitutes? Are cheap substitutes desirable? Does competition favor the invention and production of such goods?

7. The investigators of the Pittsburgh Survey found that industries in the Pittsburgh district had resulted in 526 deaths from accidents in one year. Is this due to defects of the present industrial system?

8. Cite cases where fraud has been one of the forces in the present distributive process.

9. How can it be argued that defects in distribution harm production and social development?

10. Are the rich growing richer and the poor growing poorer?

11. Is the *control* of wealth ever confused with the *ownership* of wealth in discussing the great fortunes of today?

12. When we speak of the economic inequalities of today do we mean inequalities of property or of income?

13. Does the inducement to political corruption for individual advantage exist only where industrial conditions are professedly individualistic?

14. With what justice can the prevalent social and political defects be charged to the industrial situation? Does the mere fact that defects exist condemn a system? Is any system likely to be free from defects?

15. "There can be no real political democracy without industrial democracy." What does this mean?

16. Can you give instances of wars or menace of war due to (*a*) national need for economic expansion, by enlargement of territory or increase of foreign trade? (*b*) commercial aggression of individuals in foreign countries? (*c*) agitation by persons who would be pecuniarily gainers if war should occur? Which of these cases are chargeable to the present economic system?

17. Make a list of forms of vice and crime which are fostered by the present industrial system, and show their relation to such causes as exhausting conditions of work, unemployment and want, chronic poverty, tenement and lodging-house conditions, etc.

18. Judging from what you know of the way in which development of any kind takes place, does it seem to you likely that one could reason out a system which would prove more efficient in production than one which has actually developed through decades? Do you think it reasonable to expect any sudden change in the characteristics of the factors of production?

19. Does the present system seem to you to be mainly good with some defects, or mainly bad with some good points?

20. Make out a list of the good points of the present system.

II. Remedies Which Have Been Suggested

1. *Individual Reform—the Development of Different Ideals*
2. *Social Reform*

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1. Individual Reform—the Development of Different Ideals

a) *The Significance of Individual Reform*

b) *The Agencies of Individual Reform*

Questions

1. If all men were actuated by high ideals would it make much difference what the industrial system was? Should we do better to bring our attempts at reform to bear upon the individual, or upon the system?

2. Mention professions whose representatives are engaged primarily in reforming individuals. Mention other professions whose representatives are engaged primarily in reforming the social system.

3. Do you think that individual reform would react upon social reform? Do you think that social reform would react upon individual reform?

4. Should you expect right-minded and law-abiding men and women to grow up in the streets of city slums?

5. Which is the more pertinent statement: (*a*) that men and women are inefficient and vicious and criminal because they have been born and have grown up in wretched surroundings, or (*b*) that the cause of their having been born and reared under such conditions is to be sought in the fact that their parents and predecessors in general were inefficient, vicious, and criminal?

6. How can a person with ideals of social service make up his mind whether he should engage primarily in movements making for individual reform or in movements making directly for social reform?

2. Social Reform

a) Reforms Involving No Vital Change in the Present Order
b) Reforms Practically Amounting to Revolution

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a) Reforms Involving No Vital Change in the Present Order

i. Reforms of the Immediate Conditions of Industry
  (1) On the Initiative of the Persons to Be Benefited
    (*a*) The Trade Union Movement
    (*b*) Co-operative Enterprises
  (2) On the Initiative of Other Persons
    (*a*) Profit-sharing
  (3) On the Initiative of the State
    (*a*) Regulation of the Conditions of Work
    (*b*) Workingmen's Insurance and Pensions

ii. General Economic and Social Reforms
  (1) On the Initiative of Private Persons
    (*a*) Philanthropic and Charitable Enterprises
  (2) On the Initiative of the State
    (*a*) Direct Aid to the Needy—Poor-Relief
    (*b*) Tax Reforms—including the readjustment of the burden of government expenditures and also the less radical of the tax reforms designed to prevent excessive concentration of wealth, such as progressive income and inheritance taxes
    (*c*) Enlarged Educational Facilities
    (*d*) Provisions for the Public Health—hospitals, medical aid, facilities for recreation, housing regulations

Questions

1. What functions, apart from those of regulating the relations between workmen and employees, do trade unions commonly perform?

2. Which is likely to have greater success, producers' co-operation or consumers' co-operation (so-called)? Why?

3. Cost of living is high. Would it be wise for a certain class of

people (say college teachers) to form co-operative societies to secure their household provisions? What factors would make for success in such a venture? What factors would make for failure? Would the enterprise be apt to succeed better if membership were confined to one class of society?

4. Is there any element of co-operation in the present order? If so, of what kind?

5. Describe several forms of profit-sharing, and explain their respective advantages and defects.

6. Do you think that labor unions are likely to look with favor upon profit-sharing? Why?

7. Do you expect that either profit-sharing or co-operation will become general in the United States?

8. Is there more cause for inspection, regulation, etc., in industry than there was 150 years ago? Exactly why? Does the fact of more regulation prove that we are drifting into socialism?

9. What are the grounds for labor legislation protecting women and children? Do these reasons hold equally well for such legislation for the protection of men?

10. Why is it more difficult to get suitable factory legislation in the United States than in England?

11. What is the "sweating" system? What are its chief evils?

12. In what industries is the sweating system most prevalent? How can its evils be eliminated?

13. Name five trades or occupations that are especially dangerous to workers. Should the state pass special legislation to protect the workers in such occupations?

14. What is meant by "employers' liability"?

15. Should the burden of workingmen's insurance be carried by the employer or by the state? Why?

16. Which man renders the greater service, the soldier in the army or the worker in industry? Which more deserves a pension? Do you think that the United States should have a system of workingmen's insurance against sickness, accident, old age, and death?

17. Suppose that sick benefits, old-age pensions, etc. (if provided for) raise the prices of goods to the consumer. Do you think this is fair to the consumer who does not receive such a benefit or pension?

18. Should the efforts of philanthropy and charity be directed more toward alleviation or toward prevention of misery?

19. Is the right of inheritance a natural, inherent right? Is primogeniture? Give arguments for and against the right of inheritance. Give arguments for and against the right of bequest.

b) Reforms Practically Amounting to Revolution

i. Land Nationalization (dealt with under "Rent")
ii. Anarchism
iii. Communism
iv. Socialism
  (1) The Socialist Philosophy as Exemplified in
    (*a*) Utopian Socialism
    (*b*) Christian Socialism
    (*c*) State Socialism
    (*d*) Marxian Socialism
      (i) The Materialistic Conception of History
      (ii) The Marxian Theory of Exploitation
      (iii) The Doctrine of Capitalistic Contradictions—commercial crises, concentration of capital and industry, progressive misery, development of the proletariat
      (iv) The Class Struggle and the Social Revolution
      (v) The Co-operative Commonwealth
  (2) The Socialist Movement
    (*a*) The Socialist Program
    (*b*) The Organization and Extent of the Movement
    (*c*) The Aids and Hindrances to the Movement

Questions

1. Carefully distinguish between anarchism, communism, and socialism, as social ideals.

2. Does the philosophical anarchist seek primarily an economic reform? Does the communist? the socialist?

3. Can you cite cases where economic conditions appear to have determined men's views on morals, politics, philosophy, religion, etc.?

4. In reality do you think that economic conditions determine men's views or that men's views determine their economic conditions?

5. To what extent is the course of history explained by economic causes? Consider, e.g., the discovery and settlement of America, and the various wars in the history of the United States.

6. Do political parties represent the economic interests of contending groups of people?

7. Suppose it is established that labor is exploited by the employing class. Does that prove the right of the laborer to the total product of industry, or establish the correctness of Marx's analysis of wages? Might there be any possible remedy other than socialism?

8. Is there a class struggle in the United States today?

9. Is there a growing concentration of wealth in the hands of the

few? If so, why is this unfortunate? Is the concentration movement inevitable in all industries? If it is, is socialism the only remedy?

10. Is socialism to be judged by its ideal or by its probable workings? Do you think one should commit himself to socialism because its ideals are high? Are the ideals of the competitive system lower?

11. Draw up a list of difficulties which you think the co-operative commonwealth would experience.

12. Do you think that all the evils of today are due to any one cause? Do you think there is any one cure?

13. Does the present system stand committed to the continuance of present evils?

14. Do you think anyone is sufficiently wise to predict the course of human development for the next hundred years? Should you take the stand that any set program for the future is unwise?

15. Do you think it possible for a government representing the workers to take over one great industry after another and to operate these great industries for the common welfare rather than for profits?

16. Suppose socialism were realized. What would be the effect upon rent? interest? profits? wages? Would there be anything corresponding to these shares? Would the underlying facts of production be altered?

17. Would the necessity of taking industrial risks disappear under socialism? If not, who would be the risk-taker? Would risks be taken more wisely than under the present system?

18. Would the necessity of saving disappear under socialism? If not, who would do the saving and how? Would it be done more wisely than under the present system?

19. In a collectivist state would the worker have any more freedom than he has today?

20. It has been said that progress implies the elimination of the "mere muscle man." Do you agree? Is his case becoming steadily worse under the present system? If so, would socialism continue that tendency?

21. Does the socialist urge equal distribution of wealth?

22. The socialists deny they would have a "dead level" society. They would permit inequalities of incomes and of possessions. Why should they? When they say this do they concede the usefulness of many of the motive forces of the present order? Do they retain many of the temptations of the present system?

23. If socialism were given a practical trial, do you suppose the result would be found free from the evidences of greed, unscrupulous personal ambition, fraud, and indolence which have always revealed themselves in other forms of economic society?

24. Would such defects of human character be as detrimental to

the public welfare in a socialistic system as they are when associated with excessive individual wealth?

25. The plea for socialism, it is said, has a fallacious persuasiveness in consequence of the human tendency to magnify the evils of the existing situation, and to assume that any change will be an improvement. The prejudice against socialism, on the other hand, is aggravated by the mental inertia which resists all change. Which of these biases is the stronger? Which is the more unreasonable?

26. When a man contemptuously dismisses a proposal for reform as "socialistic" what does he ordinarily mean?

27. Is the capitalist in a position to form an unprejudiced opinion on socialism? Is the laborer?

28. Are the men who vote the socialist ticket in this country committed to any definite system of social reorganization, or are they opportunists, taking advantage of every available way toward reform?

29. What are the main planks of the platform of the socialist party in the United States today? Is everyone who approves of any or even most of these planks a socialist?

30. Draw up a statement of the forces at present making for socialism in the United States. Draw up a statement of the forces militating against socialism.

31. Do you think the agitation for socialism, by counteracting the extreme tendencies of our present system, will lead to a compromise which will be better than either?

32. In what ways do you think a socialist state would be superior to the present competitive régime?

III. Suggested Ideals of Distributive Justice

1. *The Aristocratic Ideal:* Special privileges for persons of special ability, attainment, or position.
2. *The Communistic Ideal:* Equal division of all goods, or division according to the maxim: "From everyone according to his ability: to everyone according to his needs."
3. *The Socialistic Ideal:* To everyone according to his labor-service to society.
4. *The Competitive Ideal:* To everyone according to the value of his services.

The above brief statement of the several ideals of distributive justice is designed to suggest the difference of viewpoints rather than to afford an adequate description of each. Communism and socialism really differ not so much in ideals as in the social mechanisms by which they hope to reach the ideal result. The stated ideals of the

socialistic and competitive systems are obviously similar, but are to be distinguished in that (*a*) socialism requires some governmental appraisal of labor-service, while competition furnishes at least a tangible criterion of service in terms of exchange-value; (*b*) essentially different economic programs are advocated as the means of attaining them.

Questions

1. Should an unjust system of distribution endure? Is it likely to do so? What do you mean by unjust?

2. Do any of the following illustrate the aristocratic theory: primogeniture, right of inheritance, the closed shop, slavery?

3. What advantages might be claimed for an aristocratic economic system in the earlier stages of civilization?

4. Does the principle of the survival of the fittest give support to the aristocratic theory of economic society? Assuming that human ability is largely hereditary, is it not best that the descendants of the wealthy and successful should be given superior opportunities?

5. Are all men equal? If so, why do some secure exceptional advantages? If not, why attempt a social system which assumes equality?

6. Is it possible to reward every man according to his needs? How can the needs of two persons be compared? Are "needs" urgent necessities of bare existence, or economic wants in general, or aspirations?

7. Does the dictum "From each according to his ability" express a right of the incompetent to receive aid from the more capable, or an ideal of altruistic conduct for those in a position to be of service?

8. If the weaklings are given the most aid, and the burden of aiding falls most heavily on the able, will the race degenerate through a reversal of natural selection?

9. Suppose one were to accept the ideal "to each according to his labor." Does this mean physical labor, sacrifice, labor-time, or results accomplished?

10. Does not the present system reward according to the significance a service possesses for particular individuals and small classes? May this not put a premium upon trivial or even immoral things? Would it be better to let a government bureau adjudge the worth of the service? How is this bureau to arrive at its standards? How is it to apply them?

11. "In order that the motive of self-interest may be made to serve the interests of society, all harmful or socially unprofitable ways of pursuing self-interest should be closed. The advantage of individuals will then depend upon the measure of their contribution

to the well-being of others." Is this true? Give examples of the way in which law and public opinion have directed competition into beneficial channels.

12. Advocates of the competitive system have more or less expressly assumed (*a*) that every individual of mature age and sound mind knows his own interest better than a body of officials can, and (*b*) that each individual, if left to himself, will pursue his own interest. Criticize these assumptions. To what extent are they true?

13. Does the competitive ideal seem to you harder to attain than the others? Is it made more easily attainable by the fact that it utilizes both selfishness and unselfishness?

14. Do you see any difference between saying that things ought to be thus and so and saying that the state should at once proceed to make things thus and so?

15. Which is more important: approximate equality of possessions or approximate equality of opportunity? Do we have to destroy the present order to secure the latter?

16. With a more general diffusion of knowledge, culture, publicity, etc., is political democracy in more or less danger? Is equality of opportunity more or less likely to ensue?

17. Do you think that the indictments of the present order by men who are the results of this order indicate anything as to the possibility of improvement under the present system?

18. What real difference is there between the professed ideal of socialism and the professed ideal of the competitive system?

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